LC/NAIROBI

UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL

Distr.
Limited
E/ECA/UNCTC/32
13 March 1985
Ogiginal: Enlgish

ECONOMIC COMMISSION FOR AFRICA
ECA/UNCTC Joint Unit on
Transnational Corporations

TRANSNATIONAL CORPORATIONS IN THE TEA INDUSTRY OF KENYA

This paper was prepared by a consultant to ECA. The views expressed herein are those of the author and not necessarily those of the United Nations

CONTENTS

	Paras.	Pages
Table of contents		(i)-(iv)
List of tables		(v)-(vi)
Summary		1
Chapter		
I. HISTORICAL BACKGROUND	1-23	2-7
A. Foreign domination of the indigenous Kenyan Economy	1-19	2-4
B. Advent of the transnational corporations in the Kenyan economy	20-23	5-6
II. OVERVIEW OF TEA PRODUCTION AND TEA PROCESSING	24-57	8-23
A. Tea growing	24-28	8
B. Tea manufacturing	29-36	9
C. Types of manufacture	37-38	10
D. Tea packing	39-40	10
E. The global position	41-51	
F. The home position	52-56	14
G. Conclusion	57	22
III. TRANSNATIONAL CORPORATION IN THE TEA INDUSTRY OF KENYA-CORPORATE PROFILE	58-117	24-38
A. Introduction of Tea to Kenya	58-60	24
B. Entry of Brooke Bond into the East African Market	61-69	24-27
C. Production and Development	70-80	27-29
D. Further Expansion and Consolidation	81-105	29-34
1. New Technology	81-82	29
2. Take-overs and Mergers	83-88	31
3. Opposition	89-98	32
4. Diversification	99-105	33
E. Achievement	106-113	34-35
1. General	106-109	34
2. Present	110-113	35
F. Organization	114-115	35
G. Other producers	116-117	35-37
IV. KENYA TEA DEVELOPMENT AUTHORITY	118-212	39-57
A. Background	118-138	39-43
1. Experimental Phase	119-124	39-41
2. The Special Crops Development Authority	125-134	41-42
3. The Kenya Tea Development Authority	135-137	42-43
4. Statutory objectives and Goals	138	43

B.	Position of KTDA vs. transnational corporations	139	43
C.	Dominance of transnational corporations vs. KTDA	140-151	43-46
	1. Agriculture	140	43
	2. Production	141	45
	3. Manufacture	142	45
	4. Managing agency relationship	143-149	45
	5. Control of marketing	150	46
	6. Other areas	151	46
D.	GROWTH	152-169	47-49
	1. Planting programme	153-158	47
	2. Factory construction programme	159-161	48
	3. Take-over programme	162-163	48
	4. Management programme	164	48
	5. Other programmes	165-169	48
E.	Achievement	170-175	49-50
F.	Organizational structure	176-189	50-53
	1. Ministerial control	177	50
	2. Board	177-180	52
	3. Departments	181-182	52
	4. Subsidiary company boards	183-186	52
	5. Subsidiary Tea Boards	187-189	53
G.	Constraints	190-212	53-56
	1. Operational costs	191-201	53
	2. Borrowing	202-205	55
	3. Pending development	206	55
	4. Quality control	207-212	55
V.	KENYA TEA PACKERS (KETEPA)	213-290	58-72
A.	Introduction	213-214	58
B.	Break-up of the pool	215-221	58
C.	Negotiations for a new set-up	222-226	59
D.	Kenya Tea Packers Ltd	227-237	59-61
E.	Compulsory delivery	238-242	62
F.	Running of Ketepa	243-258	62-64
	1. Personnel	245	63
	2. Tea packing: -delivery, blending, packing warehouse/despatch, depot warehouse	246-252	63
	3. Tea distribution	253-257	64
	4. Trade marks	258	64

G.	Shortages	259-261	64-67
H.	Dilution	262-264	67
I.	KTDA record in Ketepa	265-271	67-68
J.	Cost and price structure	272-280	68-71
VI.	TEA MARKETING	281-342	73-90
A.	Introduction	281	73
B.	Tea grades	282-285	73
C.	Tea Market - Auctions	286-308	74
1.	Mechanics of sale	287-288	74
2.	Costs	289-293	74
3.	Buyers	293-298	75
4.	Brokers	299-304	75-77
5.	Off-shore auctions	305-307	77-78
6.	Auction activity	308	78
D.	Private Treaty	309-314	78-79
E.	Tea Associations	315	79
1.	The Tea Board		79-86
2.	Kenya Tea Growers Association	321-322	86
3.	East African Tea Trade Association	323-327	86
4.	International Tea Promotion Association	328-332	87
5.	UNCTAD	333-342	87-89

VII.	LEGAL AND ADMINISTRATION FRAMEWORK	343-432	91-103
A.	Introduction	343-344	91
B.	Legal framework	345-363	91-94
1.	Protection of foreign investments	345-349	91
2.	Recognition and enforcement of foreign judgements	350-352	92
3.	Commercial arbitration	353-356	92
4.	The IBRD Convention on the Settlement of Investment Disputes	357-358	93
5.	Bilateral agreements	359	93
6.	Exchange control	360-362	93-94
7.	Other statutes	363	94
C.	Administrative framework	364-389	94-97
1.	Approval of transnational corporations business ventures	366-373	94-95
2.	Africanization	374-375	95
3.	Government participation	376-378	96
4.	Control of access to capital	379-389	96-97
D.	Impact of state regulation and control	390-407	97-99
1.	Approval of business venture	390-394	97
2.	Africanization	395-397	98
3.	Government shareholdings	398-401	98
4.	Control of access to capital	402-407	99
E.	Transnational corporation - Government relations	408-419	99-100
1.	Inter-action	408-409	99
2.	Rationale	410-419	100
F.	Economic situation	420-432	101
1.	Good economic record	420-421	101
2.	Changes in economic fortunes	422-424	101
3.	Economic policies	425-432	101-102
VIII	FINDINGS AND RECOMMENDATIONS	433-458	104-107
A.	Findings	433-437	104
B.	Recommendations	438-458	104-107

List of Tables

Table 1	Principal exports from Kenya colony, 1927, in £S
Table 2	Area under tea cultivation in Kenya, 1970-1981
Table 3	Area planted with tea in various countries at the end of each year
Table 4	Production of made tea in Kenya, 1970-1981
Table 5	Production of tea in various countries during each year
Table 6	Percentage share of world production from major producing countries
Table 7	Percentage share of world exports from major producing countries
Table 8	Value of exports of tea
Table 9	Marketed production of some major crops, 1965-1979, Kenya
Table 10	Value of main exports for Kenya in 1979
Table 11	Kenya since independence - Statistical record of trade
Table 12	Total tea sales in 1937 in East Africa
Table 13	Tea production in Kenya, 1924-1947
Table 14	Tea production, yields, acreage and costs, 1953-1971
Table 15	Brooke Bond production 1972-1981
Table 16	Brooke Bond Kenya Limited, Balance Sheet at 30 June 1982
Table 17	Pre-1959/1960 planting programme
Table 18	Financial commitment : First and Second Plans
Table 19	10-year summary of green leaf payments
Table 20	Average tea prices, London Auction
Table 21	Distribution of land under tea cultivation, 1963-1976
Table 22	Kenya Tea Packers Limited : Loan and share capital call-in schedules
Table 23	Ketepa distributors
Table 24	Retail prices
Table 25	Producer cost statement
Table 26	Domestic deliveries of tea
Table 27	Tea purchases in Mombasa Auctions, January to June 1982
Table 28	Highest net prices on ex-warehouse sales Mombasa basis -7.2.1983
Table 29	Quantities of tea sold at London and European Auctions
Table 30	Annual average prices of tea sold at auctions in producing countries

Table 31 Annual average prices of tea sold at London and European Auctions

Table 32 Quantities of tea sold at auctions in producing countries

Table 33 Kenya : exports of tea, showing countries of destination

SUMMARY

This study undertaken for the United Nations Economic Commission for Africa, is one of an in-depth series on the involvement of transnational corporations in export-oriented primary commodities in developing countries. The studies are being carried out under an integrated inter-regional programme involving the Economic Commission for Latin America (ECLA), the Economic & Social Commission for Asia & the Pacific, (ESCAP), the Economic Commission for Africa (ECA) and the United Nations Centre on Transnational Corporations.

The study focusses on tea in Kenya. It first offers a historical account of the colonial political economy in Kenya which highlights both the inherent dominance by transnational corporations over the Kenya tea industry and the weakness of the Kenya Government and its national tea agent corporations. The study then discusses the importance of tea as an export-oriented primary commodity in t the world and for the Kenyan economy, thus underlining why it is crucital to both transnational corporations and the Kenya Government. A mini case-study on one major transnational corporation operating in Kenya is presented to exemplify the general behaviour of TNCs in their tea operations within the country and without. This is followed by two similar case studies on national tea corporations as rival concerns: in the examination, the operations of transnational corporations in Kenya tea industry are further demonstrated. Through a look at the workings of the tea market, more light is shed on the activities of the transnational coporations on tea. Finally the study dwells on legal, admini trative and economic infrastractures as instruments for controlling the Kenyan tea industry, and offers final recommendations.

The study attempts to expose the control of transnational corporations over the tea industry in Kenya and the comparative weakness of the Kenya Government and its national tea corporations. This weakness has led to unequal positions in negotiations betweeen the TNCs and the Government over the important issue of distribution of economic gains derived from tea. Reasons for this imbalance, the bargaining situation itself, the variables of the situation and determining factors for the outcome of negotiations themselves are analysed. Attempts at amendments by the Government and its national tea corporations have been charted. An estimate of the impact from each party to the negotiations and the nature of the outcome is made.

The study has benefitted from, co-operation from the University of Nairobi Main Library Africana Section. The University of Nairobi, Faculty of Commerce, Department of Business Administration; the Central Bureau of Statistics, Nairobi; the Kenya National Archives; the Tea Board of Kenya; and other corporations.

The study was prepared for the Joint ECA/UNCTC Unit on transnational Corporations by Mr. C.M. Irungu of the Kenya Tea Development Authority.

CHAPTER I

HISTORICAL BACKGROUND

A. Foreign domination of the indigenous Kenyan economy

1. By the turn of the last century following its incorporation into the British Empire Kenya became amalgamated in the growing international capitalist merchantile system. By the end of the first decade of the 1900s, the Imperial British Government had, through invasion and conquest, established the necessary basic public administrative and infrastructural apparatus for control of the new possession.

2. Foreign control of the Kenyan economy and the process to supplant the indigenous system had thus commenced in earnest. Transformation of the economy was given further impetus by an influx of British and Boer emigrants from Britain and South Africa who came as settlers in what was then described a "white-man's" country.

3. Through the promulgation of the Crown Lands Ordnance, good land in Kenya under African properietorship was appropriated to the British Crown for subsequent alienation to the Europeans.1/ Africans were settled in delineated poorer land, Native Reserves; Indians were barred from owning any land in the areas set-aside for Europeans.

4. By 1937, the amount of land set aside or deemed suitable for Europeans totalled 119357 square kilometres (29.5 million acres); land in Native Reserves totalled only 124768 square kilometres (30.8 million acres), despite the fact that Europeans comprised less than 1% and Africans almost 98% of the total population.

5. On lands designated for European settlement, plantation cash-crop farming was established, supported by African labour derived from the Native Reserves. Legal sanctions forced Africans to work on the European farms. The Native Reserves engaged in subsistence crop and pastoral agriculture.

6. In a landmark judicial case in 1921, Africans were barred from individual ownership of land in the Native Reserves. 3/ Without recognition of individual ownership of land, Africans were in effect barred from owning land as security in borrowing money from banks and wholesalers. And within the legal framework imposed on Kenya by colonial rule, absence of individual ownership left land in the Native Reserves open to future alienation to Europeans by the administration with no opportunity for compensation.4/

7. Under the provisions of the Marketing of Native Produce Ordinance of 1935, "non-established" (i.e. African) traders were prohibited form buying or selling specified produce within a 3 mile radius of "established" (i.e. European or Asian) trading centres. 5/

8. This measure gave European and Asian traders virtual monopoly on the buying of African produce; it could also be used informally to bar Africans from producing cash-crops which competed with produce from European settlers' farms, since it left marketing in the hands of non-Africans. The latter could simply refuse to buy from Africans or could set artifically low prices to discourage African producers. The bill to this Ordinance was in fact instigated by the Kenya Farmers Association (KFA), then composed of European settlers, as a drive to control African competition in the cultivation and marketing of maize for doemstic consumption; other commodities, however, were added to the schedule list.

9. Indeed, African peasants came into conflict with European planters over the cultivation of cash crops for export. Under pressure from the settler group, Africans were denied by the colonial regime the right to grow such cash crops for a long time.6/

10. Throughout the colonial period, Africans were placed under severe credit restrictions. These assumed renewed importance following World War II when Africans returned from military duty with ambitions of starting their own business. Under the credit to Africans (Control) Ordinance of 1984 which replaced earlier measures, debts incurred by Africans to non-Africans were not enforceable in court if they exceeded 200 shillings (US$28), a limit later raised to 2000 shillings (US$280), the sum was hardly adequate for financing or stocking even a small shop. The effect of the Ordinance was to prohibit lending to Africans, not only by the banks but also by non-African wholesalers. The only exceptions to the rule in the Ordinance were specified African individuals who obtained exempted status through application to their district commissioner. Thus the aspiring African businessmen were placed under the watchful scrutiny of the District Commissioner, a European usually inclined to favour European wishes and vulnerable to pressures from the settlers and other non-African business interests opposed to any independent economic activity on the part of the Africans.

11. Another form of restriction on African entry into trade in urban areas took the form of the legal framework of trade licenses which was designed to protect European and Asian merchants and land-owners from competition by small entrepreneurs.

12. In education, the policy of the colonial government was not designed to train Africans in the skills required for business or artisanship, such less managerial posts. Even the limited industrial training that was offered was mediocre and incomplete and prevented the emergence of Africans who could compete with European and Asian technicians. In essence, it ensured the continued supply of unskilled African labour.7/

13. The taxation policy of the colonial regime imposed an unequal distribution of tax burdens and government services among the Africans and Europeans. Through the imposition of such varied levies as poll taxes, hut-taxes and high customs duties on imported cotton piece goods, Africans shouldered the bulk of the tax-burden over 60% for the entire colony.8/

14. By contrast, Europeans successfully resisted the imposition of income tax up until the 1940s. Yet, the bulk of the government services - health, education, agriculture, supported by the government revenues derived from taxation of Africans, benefitted the Europeans. Railway extensions were situated to develop European settler areas rather than African peasant agriculture. On the other hand, the rail-freight structure fell disproportionately on tropical exports produced by African peasants and effectively subsidized the temperate climate agricultural produce of the European settlers.9/

15. These restrictions and adverse policies which blocked African entry into industry and business generated political and economic storms between the Africans and the European settlers. They culminated in the nationalist Mau Mau War, or the so called State of Emergency. With the declaration under the Emergency Powers Order in Council of 1939 of the State of Emergency over Kenya from 1952, and its continuation for the next 7 years or so, many of the African enterprises which had succeeded in overcoming barriers to entry shut down. The enterprises were closed; an over-all ban on hawking during the Emergency ensured that trade by Africans had been stopped.

16. The cumulative effect of these colonial policies was to remove control of the Kenyan economy from indigenous African hands and to super-impose foreign control at all levels of economic activity, with resulting denial to Africans of fundamental components of production.

17. At the structural level, Kenya entered the vertical international division of labour through trade with the outside world: Kenyans laboured to produce the raw materials and food needed by the external imperial economy and in turn consumed manufactured goods and machinery imported therefrom. A growing portion of the African population shifted from production for domestic consumption to meet their own needs (use-value) to production for export to satisfy the needs of the external imperial economy (exchange-value) or resident aliens such as the Europeans and Asians (also exchange-value).

18. At the level of production and units of distribution in the form of ownership of farms, firms and other commercial entities, Africans lost control over internal trade to European and Asian hands: this was re-inforced by the emergence of plantation agriculture upon arrival of European settlers. The demands of European planters and settlers for control of means of production-African land, African labour, and private and public capital through the existence and control of the colonial public administration gradually reduced the status of Kenyan Africans and their native leadership: once independent producers and traders, they became labourers and workers for European and Asian firms and for public works to benefit these same firms.

19. Africans were limited to production of foodstuffs and other goods within the Native Reserves for consumption within the same area. Europeans controlled the colonial administrative machinery, the financial institutions, the larger import-export firms, shipping, mining (gold and soda ash) plantations, large farms, large scale food-processing f ms and the large commercial firms. Asians controlled smaller import-export firms, most of the retail shops in the cities and towns, financial institutions serving the Asian community and small-scale manufacturing; they also filled most of the positions of artisans and clerks in the European and Asian firms and in the colonial administration. Africans controlled petty trade, subsistence crop and pastrol agriculture within the Native Reserves or worked as labourers for European and Asian enterpreises or in menial jobs in the colonial administration, railways, forces of law and order and the church.

B. Advent of the transnational corporations in the Kenyan economy

20. In the wake of this historic background, transnational corporations emerged in the Kenyan economy, including the tea sector their entry was much aided by a colonizing imperial power that had laid down the necessary infrastructure on which the transnational corporations head-quartered in the metropole could thrive. Their over-riding dominance as the economic organs of the colonial system was institutionalized, to the detriment of the Kenyan African enterprise. As a result, the Kenyan African peoples emerged as an extremely disadvantaged and weak economic and political group within the colonial economy.

21. The colonial background itself is therefore a determining factor in the ongoing dialogue between the transnational corporations and the present African national Government.

22. The legacy of disadvantage on the part of the Africans explains in part the comparatively weak position of the present Government in its negotiations with the transnational corporations on the distribution of gains from production, industry and commerce.

23. Against this early background, the performance of the colonial econonomy is summarized in the Table below.

TABLE 1

Principal Exports from Kenya Colony, 1937

(£ S)

Coffee	732,263	-	18.9%
Sisal	673,719	-	17.3%
Tea	466,872	-	12.0%
Gold	415,967	-	10.7%
Maize	198,932		5.1%
Hides	196,071		5.0%
Sodium Carbonate	197,420		5.0
Skins	104,289		3.0%
	3,888,320		100%

Source: Overseas Survey

Footnotes

CHAPTER I

1. See the Crown Lands Ordinance of 1902 and the Judgment in the Famous Ole Njogo Case.

2. Calculations based on Kenya Colony and Protectorate Blue Book for the year ended 31 December 1937, Nairobi, Government Printer, 1938 P. 2110, 475.

3. See Civil Case No. 526 of 1921, Nairobi, File PC/CP 3/4/2, 1920-22, Kenya National Archives, Nairobi. According to the judgement in this case, "individual ownership of land in Native Reserves cannot be recognized."

4. A large number of disputes surrounding alienation of land to church missions operated by Europeans within the Native Reserves arose on this principle.

5. See S.H. Fazan - P.C. - Nyanza Province Memorandum on marketing of Native Ordinance and the measures which should be taken under it in Nyanza - 10th November, 1937, Ministry of Commerce and Industry, Deposit No. 5, Series 1 Box 1, 1424, File Ind. 1/5/1 II item 56c, National Archives, Nairobi.

6. See Coffee Plantations Registration of Ordinance, 1919.

7. See the speech of James Russell Orr, 15th September, 1924- Minutes of the Proceedings of the Legislative Council, 1924- Colony and Protectorate of Kenya.

8. For more on the unequal distribution of tax burdens and government services among Africans and Europeans, see E.A. Brett, Colonialism and under-development in East Africa, P. 199-9.

9. Ibid, P. 199-202, See also the often acrimonious debate between the Ag. G.M. of the Uganda Railways and European Settler representatives - Berkely Cole, Lord Delamere and J.E. Coney over extension of the railways to European vs. African areas-Minutes of the Proceedings of the Legislative Council, 17th December, 1924- Colony and Protectorate of Kenya.

10. For more reading on the account, See Ian Jelmert Jorgensen- PHD., Visiting Assistant Professor, Management in Developing Countries, Faculty of Management, McGill University - Canada, on Multi-national Corporations and the indigenization of the Kenyan Economy.

CHAPTER II

OVER-VIEW OF TEA PRODUCTION AND TEA PROCESSING

A. Tea growing

24. Tea grows under wide range of conditions, from mediterranean to hot or humid tropical climates. For commercial purposes however, tea requires a well-distributed annual rainfall, and the crop performs ideally at temperatures of 22.5°C. A well drained friable deep soil is essential while exposed and excessively windy areas are unsuitable.

25. In Kenya, the crop is grown on the Highlands both East and West of the Great Rift Valley, on the slopes of Mount Kenya, the Aberdares, Kericho and Kisii District, at altitudes generally over 5000 ft above the sea level. The area suitable for tea growing covers 12 districts spread across the country.

26. Tea is grown from both seeds and vegetatively propagated (V.P.) cuttings. The seeds germinate into seedlings in the nursery where they are nurtured for a period ranging from 18 to 24 months before they are ready for permanent transplant on farm grounds. V.P. cuttings, on the other hand, require about 8 months in nursery prior to field planting, after which it takes approximately 3 years for tea to start yielding; application of soil nutrients such as fertilizer or manure, mulching for young plants and shade in regions of intense heat are called for in tea husbandry. The crop also requires periodic pruning. From the 3rd year, yields increase steadily unless the plants suffer from drought, disease, bad weather or lack of good husbandry. From the 8th year on, yields from tea originating from V.P. cuttings are more or less constant, and the plants are considered mature. Tea originating from seedling stump come to maturity 6 years after planting. The difference stems from the respective ages at which root systems are fully developed. It should be noted that the V.P. method permits introduction selected clonal teas or mother bushes, which have yield 50-60 percent higher than the non-selected type of tea grown from seedlings.

27. By nature, the crop is perennial and can enjoy a life-span of 100 years. Under cultivation, it is a monocultural crop and once planted, is permanent.

28. The top or upper-most leaves in the twig of the tea plant are plucked as yield. The highest quality teas comprise two leaves and a bud or one leaf and a bud and a soft baijhi. Many producers, however will add one or two lower leaves when plucking the crop.2/

B. Tea manufacture 3/

29. The plucked leaf is shipped to the tea manufacturing plant where the primary crop is processed into made tea. The manufacture of black tea—Kenya's principal product — involves several distinct steps that are briefly described below.

1. Withering

30. Different companies have their own methods at this stage but share the common objective of preparing the leaf for rolling. Essentially, the leaf is allowed to dry, usually in a cool open room by means of natural draught, or at times through use of special fans, until leaf water content has evaporated to about 60 per cent. The process takes from 18 to 24 hours, depending on temperature, humidity and thickness of leaf spread.

2. Rolling

31. The "Orthodox" method used by the Kenya Tea Development Authority (KTDA) employs machines that compress and turn the leaf in a continual motion in a process that bruises it, thus spreading the extracted juice over it. Using equipment consisting of a low circular table superimposed with a sleeve, the procedure takes some 30 minutes per feeding. The juice so produced contains chemical constituents that are required for fermentation.

32. The modern "Crushing, Tearing and Curling" method (CTC) feeds the leaf into two short revolving rollers that operate at different speeds. The method, aptly described in its name, progressively cuts the leaf into smaller sizes, making it ready for fermentation.

33. A third method uses a high out-put, low cost machine called Rotorvane that compressed and distorts the leaves fed into it, thus covering them in their juice. The advantage of the Rotorvane is its possible application as a component in the CTC method.

3. Fermentation

34. Leaves are broken into separate particles and sifted, then placed into special containers that allow for aeration and control of temperature and moisture loss. During fermentation the air is kept moist and leaf temperature maintained at 76 degrees F. Fermentation turns the leaf a brownish coppery colour.

4. Drying or firing

35. In the final stage, the fermented leaf is fed into a dryer and treated with hot air at temperatures of 190 to 200 degrees F inlet and 120 to 130 degrees F outlet. Moisture content is reduced to the desired 5 per cent and results in the production of black tea.

36. For marketing purposes, the tea is then graded through sieves of varying mesh size. It is finally packaged at moisture content not exceeding 6 per cent.

C. Types of manufacture

37. Black tea, as manufactured in the description above is the most popular for the European market. However, the far east countries - Japan and China - and some Arab counries consumes green tea. There has been an attempt to manufacture green tea in Kenya, however, the venture, the first of its kind in Africa, did not succeed.

38. The manufacture of green tea avoids the withering and fermentation processes. As the leaf is received, it is fed into a special machine which kills it with a blast of hot steam. In the next process, it is rolled in a machine that twists it without breaking into small particles. The leaf is then dried, sorted, graded and packed at a moisture content of 5 per cent.

D. Tea packing

39. The tea produced in tea factories in the manner described above is for sale in bulk to tea packers, the middle men in the trade: bulk tea is sold on exclusively in this form the major tea auctions of the world.

40. Before it reaches the consumer, especially the European, American and Kenyan consumer, loose bulk tea must be packaged. The process is carried out in packaging plants which reduce the bulk into smaller quantities for distribution to consumers at wholesale or retail shops. Obviously bulk tea fetches a primary price in the market while packaged tea sells at consumer prices.

E. The Global position

41. As of 31 of December 1981, Kenya had an over-all area of 73920 hectares under tea cultivation. Plantings for the last 12 years are shown in table 2 below.

42. Kenya's acreage is low compared to India's and Sri-Lanka's holdings of 379447 and 244919 hectares respectively. 4/ Within the African continent, however, Kenya is in the lead: Zaire, with 20905 hectares follows in a poor second place.

43. It should be noted that most of the planting by Kenya has taken place within less than 20 years; furthermore, in the past decade, the area under tea has risen from the recorded level of 40270 to the present acreage.

44. In the field of tea planting, Kenya's performance is outstanding, as can be seen in table 3.

45. As of 31 December 1981, total world production of tea stood at 1925823 metric tons, of which Kenya produced 90941. Table IV indicates the level of production over the years.

46. Kenya was the sixth largest producer of tea in the world, coming behind India, the Peoples Republic of China, Sri-Lanka, The U.S.S.R. and Japan with production levels at 560270, 342500, 210142, 134000 and 102304 metric tons respectively, for the years 1979-81. Within the same and preceding periods, Kenya ranked as the leading producer of tea in Africa, followed by Malawi.

47. As of December 1981 Kenya controlled a 5 per cent share of the entire world production against 29.2 per cent 18.7 per cent, 11.5 per cent, 7.3 per cent and 5.6 per cent production shares held by India, the Peoples Republic of China, Sri-Lanka, the Soviet Union and Japan respectively. It held nearly half of Africa's percentage share of world production of 11 per cent.

TABLE 2

Area under tea cultivation in Kenya, 1970-1981

YEAR	NO OF HECTARES
1970	40,278
1971	43,936
1972	49,763
1973	54,918
1974	58,563
1975	61,511
1976	65,951
1977	68,392
1978	72,048
1979	74,390
1980	76,550
1981	78,920

TABLE 3

Area planted with tea in various countries, at the end of each year.

Figures in hectares represent the total planted areas, not the areas in bearing or plucked, and relate to 31st December of each year unless otherwise noted below.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India												
Assam, Bengal, Bihar, Tripura	276,728	278,705	280,078	281,51	283,.04	284,123	285,993	289,516	[illegible]	297,150		
Punjab, U.P. & H.P. ...	6,001	6,001	5,993	6,000	5,990	5,982	5,982	5,982	5,997	5,987		
South India	73,878	75,569	74,055	74,151	73,809	74,170	74,361	74,566	74,823	74,567		
Total ...	356,516	360,275	360,126	361,663	363,303	364,275	366,276	369,181	373,747	378,447		
Bangladesh	42,637	42,928	42,646	42,866	42,603	43,010	43,142	43,243	43,599			
Ceylon (Sri Lanka) :												
Estates	199,110	198,540	198,287	198,173	197,447	196,596	192,652	192,926	192,813	192,779	192,630	190,309
Small Holdings	42,690	43,127	43,571	44,129	44,744	45,281	47,925	49,086	49,990	51,120	52,085	52,614
Total	241,799	241,667	241,858	242,302	242,191	241,877	240,578	242,012	242,803	244,899	244,715	242,923
Indonesia:												
Estates (Java)	46,505	51,373	47,967	47,604	47,013	47,073	46,400	53,157	54,356	54,577	57,865	57,557
(Sumatra)	14,992	14,101	14,157	14,172	14,092	13,605	13,173	14,515	13,196	13,079	13,191	13,337
Smallholders (Java) ...	(48,000)	36,200	(34,700)	(34,300)	(34,000)	(34,400)	(35,300)	(36,000)	(37,100)	(37,600)	(37,441)	(42,759)
Total (Estates only) ...	62,407	65,477	62,124	61,777	61,105	60,745	59,573	67,723	67,614	67,656	71,056	71,294
Pepoples Rep. China	...	...	...	...	...	...	...	...	...	...	...	...
Taiwan	34,400	34,200	33,500	33,000	33,000	32,900	32,300	31,900	30,400	27,800	29,000	29,000
Iran	30,200	30,200	30,200	29,400	30,200	30,200	...	...	...	...	...	...
Japan	51,600	53,960	54,500	57,200	58,400	59,200	59,600	60,700	60,900	60,700	61,000	61,000
Malaya	2,978	2,968	2,986	2,977	2,570	2,815	2,782	2,736	2,777	2,640	2,420	2,540
Turkey	25,300	28,351	20,762	40,467	49,517	50,268	52,095	52,393	52,856	53,091	53,011	53,167
Viet-Nam (South)	8,215	8,450	2,950	7,300	7,500	8,000	...	...	...	...	...	...
Burundi	1,137	1,319	1,650	1,901	2,245	...	...	...	...	...	...	4,720
Cameroon	730	737	747	745	747	753	859	902	948	976	1,093	...
Kenya	40,278	43,836	48,765	54,818	58,863	61,211	65,451	69,352	72,845	74,800	76,540	78,000
Malawi	15,200	15,455	15,842	16,206	16,541	16,206	17,231	17,335	17,812	18,173	18,270	13,453
Mauritius	3,801	4,013	4,841	5,085	5,458	5,540	5,770	5,931	5,944	5,137	3,916	3,952
Mozambique	15,141	15,405	15,605	15,647	15,718	15,764	15,900	15,904	15,936	15,955	...	...
Rwanda	2,724	3,076	3,657	4,173	4,932	5,519	6,163	6,988	7,175	8,307	...	...
South Africa	2,400	2,600	2,956	2,956	3,200	3,400	3,522	4,908	4,400	5,000	5,350	5,420
Tanzania	11,949	12,483	14,012	14,810	16,256	17,764	18,367	18,431	18,482	18,500	...	...
Uganda	17,455	16,556	19,085	20,426	20,778	20,884	20,736	20,500	20,506	20,906	20,905	20,905
Zaire	12,652	10,401	10,052	9,930	10,401	10,400	10,200	10,300	...	...	...	...
Zimbabwe	3,775	4,909	4,221	4,329	4,301	4,420	4,184	4,471	4,452	4,254	4,738	4,867
U.S.S.R.	74,400	75,500	74,700	73,500	75,500	76,000	76,800	76,800	77,400	78,700	78,900	...
Argentina	33,600	34,300	35,000	38,730	41,000	44,400	42,000	43,000	40,700	41,000	...	...
Brazil	4,452	4,455	4,460	4,475	4,461	5,315	5,405	5,340	4,593	4,673	4,926	...
Peru	3,146	3,457	...	...	...	...	...	...	4,000	4,000	4,000	...
Papua, New Guinea ...	2,957	3,353	3,766	3,706	3,770	3,909	...	...	...	...	...	...

Source: International Tea Committee

Table 4

Production of made tea in Kenya, 1970-1981

Year	Made Tea (Metric Tons)
1970	41,077
1971	36,290
1972	53,322
1973	56,578
1974	53,440
1975	56,730
1976	61,984
1977	86,391
1978	92,373
1979	99,275
1980	89,993
1981	90,941

48. Tables 5 and 6 detail production for a period of 12 years. It should be highlighted that most of the Kenyan tea is now young; this is one reason for comparatively low production compared to the country's high planting rates.

49. The level of Kenya's tea exports is shown in Table 7. At the end of 1981 it represented 75629 metric tons out of a total world tonnage of 960205 metric tons. The country therefore held 8.8 per cent of the global share of exports and was as such, the 4th largest exporter of tea in the world, coming only second to India, the Republic of China and Sri-Lanka whose respective shares of world exports were 22.6 per cent, 21.4 per cent and 10.7 per cent at 245598, 184000 and 91968 metric tons. This indicates that, unlike such other major producers as India, the Republic of China, U.S.S.R. and Japan, most of Kenya's tea is for export, not for the home market. Within the African market, which accounts for 160341, metric tons or 18 per cent of total world tea exports, Kenya took close to one half the entire share.

50. Table 8 shows the value of Kenyan tea exports: for 1981 they amounted to US$ 135323000, by far the highest value of exports for the continent.

51. In summary, Kenya is a 'world power' in tea production, ranking among the four major world. The other three countries are the Republic of China, India and Sri-Lanka.

F. Home position

52. Figures on production and exports discussed alone establish Kenya's important contribution of tea to the world economy. The commodity holds even greater significance, however, for the nations economy. Table 9 illustrates that tea is the leading export crop in terms of production quantity, with the exception of sugar which has until now been produced essentially for home consumption. In addition, the rise in level of tea prodcution has been dramatic in comparison to the other export crops. The performance of the crop as against the rest of the Kenyan export products in terms of value is equally impressive as seen in Table 10.

53. As a crop, tea comes only second to coffee and holds the third position in importance. However although Kenya may have an enviable range of exports, in its trading the economy relies too heavily on coffee and its companion tea.

54. Viewed from a wider context, the record and position of tea against other crops still establishes its significance, as seen in table 11.

55. Tea has risen from its modest position at the time of Kenya's Independence to a central role as one among the major components in the country's gross domestic product; the crop now rivals tourism and petroleum products and could well surpass them in future.

56. Though subordinate to coffee in terms of earnings, it is ahead of this crop in terms of production quantities. It also surpasses coffee in terms of market prominence: whereas Kenya is a 'super-power' in tea exports, it is but an ordinary exporter of coffee.

TABLE 5

Production of Tea in various countries during each year.

The figures represent made tea, in metric tons. Calendar Years unless otherwise stated.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India												
Assam, Bengal, Bihar, Tripura	315,897	330,750	350,816	366,194	387,512	378,607	398,352	426,514	432,198	403,319	439,307	428,083
Punjab, U.P., & H.P. ...	1,541	1,578	1,671	1,957	2,296	1,971	2,287	1,269	1,212	1,094	1,259	*
South India	101,159	103,137	103,309	103,791	99,667	106,569	111,178	126,435	130,490	135,360	151,097	122,632
Total	418,617	435,465	455,936	471,952	489,475	487,137	511,817	556,767	563,900	543,773	591,661	550,720
Bangladesh	31,381	12,449	29,836	27,550	32,159	29,009	33,267	38,041	37,093	35,603	39,929	41,141
Ceylon [Sri Lanka]:												
High-grown	81,110	84,569	81,393	80,571	80,256	80,160	75,918	78,576	71,516	76,641	72,170	80,492
Medium-grown	72,190	75,998	74,522	70,423	76,510	73,079	64,456	65,623	61,113	63,451	56,564	59,345
Low-grown	58,900	57,246	57,160	60,278	53,242	60,440	56,233	63,260	66,061	67,238	63,212	70,311
Total	212,210	217,773	213,475	211,271	204,008	213,679	196,609	208,572	198,691	208,647	191,946	210,148
Indonesia												
Estates (Java)	29,901	33,571	34,795	38,908	37,563	29,876	41,348	43,903	51,550	53,966	56,874	62,160
(Sumatra)	13,016	13,933	13,473	14,135	12,135	25,616	18,524	16,772	20,176	16,105	21,534	25,562
Smallholders (Java)	1,131	703	1,503	1,514	1,520	1,442	1,500	1,500	1,500	1,500	1,500	1,500
Smallholders (Java & Sum.)(est)					(14,300)	(14,100)	(13,300)	(13,681)	(17,424)	(19,000)	(19,000)	(19,943)
Total	44,048	48,207	49,777	54,557	54,718	56,831	61,072	64,300	73,226	73,274	79,909	89,169
Peop. Rep. China ..	...	...	...	...	...	...	...	252,000	268,000	277,000	303,750	342,500
Taiwan	27,643	25,924	26,229	26,639	24,173	26,902	24,758	26,303	29,854	32,656	34,179	36,231
Iran	19,800	16,000	22,000	21,000	21,000	23,000	24,000	24,000	24,000	21,000	20,000	23,000
Japan	91,198	92,911	94,632	100,966	95,238	105,443	100,097	102,301	104,757	99,000	100,350	105,304
Malaya	3,561	3,301	3,364	3,462	3,537	3,568	3,306	3,734	3,093	3,141	3,003	3,055
Turkey	33,431	32,260	46,500	43,202	42,721	56,542	48,547	47,892	56,202	38,000	40,289	41,154
Viet-Nam (South)	5,945	5,800	5,100	6,250	6,000	6,000	6,000	7,000	6,000	6,000	5,683	6,000
Total Asia (inc. China from '77)	887159	891113	941109	998651	988512	1006834	1010370	1380150	1395540	1399587	1494102	1429759
Burundi	146	322	486	667	906	857	1,166	1,476	1,494	1,612	1,555	2,235
Cameroon	1,179	1,222	1,438	1,476	1,597	1,794	1,977	1,603	2,015	1,850	1,826	2,000
Kenya	41,077	36,290	53,322	56,576	53,440	56,750	61,984	86,291	92,373	89,479	84,853	93,841
Malawi	18,731	18,615	20,682	20,503	25,318	26,256	28,392	31,734	31,680	32,601	29,015	30,000
Mauritius	3,258	4,000	4,076	4,079	3,984	3,139	4,354	4,771	5,128	5,077	4,235	4,855
Mozambique	16,974	16,536	18,678	18,795	17,039	13,143	13,825	17,000	18,069	19,619	19,500	22,000
Rwanda	1,245	1,819	2,522	2,711	3,433	3,985	4,032	3,350	3,341	3,220	2,000	2,000
South Africa	800	1,500	2,000	2,500	3,000	3,200	3,800	4,400	5,360	6,250	6,000	6,000
Tanzania	8,492	10,467	12,706	12,698	12,974	13,732	14,074	16,201	17,227	17,894	17,023	15,526
Uganda	18,217	17,966	23,376	21,944	21,566	16,374	15,387	15,179	10,910	3,832	3,833	1,000
Zaire	8,759	8,797	7,000	7,000	6,700	6,700	6,800	6,700	6,000	6,000	6,000	1,000
Zimbabwe	3,906	4,345	4,560	4,682	6,152	6,236	6,570	6,549	8,749	10,002	9,954	10,000
Total Africa ...	123,786	121,918	151,447	156,645	154,631	154,157	163,171	197,210	206,366	208,151	193,901	200,609
U.S.S.R.	66,600	69,000	71,300	74,000	80,800	86,300	92,000	106,400	111,700	117,600	129,800	134,000
Argentina	27,090	27,510	27,010	28,100	30,650	27,950	35,280	21,650	26,250	30,150	31,000	30,600
Brazil	5,848	6,547	6,500	6,471	6,444	7,681	7,500	7,164	9,196	9,250	9,700	10,500
Ecuador	310	424	467	659	612	1,023	1,000	1,000	1,200	1,200	2,000	1,200
Peru	1,520	2,020	2,500	2,500	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
Total S. America	34,768	36,501	36,477	38,030	40,706	39,654	47,100	33,371	39,646	43,228	46,707	44,709
Papua, New Guinea ...	971	1,402	2,689	3,577	4,083	4,310	4,487	5,412	6,310	6,039	8,000	7,500
Grand Total (inc. China from 1977)	1112464	1119634	1203022	1242903	1254239	1290235	1376129	1782623	1753377	1773514	1818512	1820233

Production of Green Tea (Included in figures above)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India	8,432	7,347	8,772	10,087	9,850	7,250	7,313	8,527	7,850	7,350	8,100	7,500
Indonesia - Smallholders ...					14,300	14,100	13,300	13,500	12,424	19,000	20,506	21,941
China								...	...	...	33,150	32,000
Taiwan	Not Available.											
Japan	90,944	92,858	94,816	100,904	95,238	105,443	100,097	102,275	104,757	99,000	100,350	105,304

Source: International Tea Committee

TABLE 6

Percentage share of world production from major producing countries.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India	37.6	38.9	37.9	38.0	39.0	37.8	38.6	32.7	32.2	31.9	31.6	30.8
Bangladesh	2.6	1.1	2.0	2.2	2.6	2.2	2.5	2.2	2.2	2.9	2.2	2.3
Sri Lanka	19.1	19.5	17.7	17.0	16.3	16.6	14.8	12.3	11.3	11.6	10.5	11.5
Indonesia	4.0	4.3	4.1	4.4	4.1	4.4	4.6	3.8	4.2	4.1	4.4	4.7
China								14.8	15.3	15.9	16.7	18.7
Japan (Mainly Green Tea) ...	8.2	8.3	7.9	8.1	7.6	6.2	7.5	6.0	6.6	5.9	5.5	5.6
Turkey	3.0	2.9	3.9	3.5	3.4	4.3	4.5	4.6	4.9	5.7	6.3	2.3
Other Asia	5.1	4.6	4.7	4.8	4.3	4.5	4.4	3.6	3.3	3.2	2.9	3.0
Asia	79.6	79.6	78.2	78.0	77.3	76.0	76.9	80.0	79.4	73.6	79.2	78.9
Kenya	3.7	3.2	4.4	4.6	4.3	4.4	4.7	5.1	5.3	5.6	4.9	5.0
Malawi	1.7	1.7	1.7	1.9	1.9	2.0	2.1	1.8	1.8	1.8	1.6	1.7
Mozambique	1.5	1.5	1.6	1.5	1.4	1.0	1.0	1.0	1.0	1.1	1.0	1.2
Tanzania	0.8	0.9	1.1	1.0	1.0	1.1	1.1	0.9	1.0	1.0	0.9	0.9
Uganda	1.6	1.6	1.9	1.8	1.7	1.4	1.2	0.9	0.6	0.1	0.1	0.1
Other Africa	1.7	2.0	1.9	1.8	2.0	2.0	2.2	1.8	1.9	2.1	2.0	2.1
Africa	11.0	10.9	12.6	12.6	12.3	11.9	12.3	11.5	11.6	11.7	10.5	11.0
U.S.S.R.	6.0	6.1	5.9	6.0	6.4	6.7	6.9	6.2	6.3	6.6	7.1	7.3
South America...	3.1	3.3	3.0	3.1	3.6	3.1	3.6	2.0	2.3	2.6	2.7	2.4
Others	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.5	0.5	0.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Including China from 1977.

Source: International Tea Committee.

TABLE 7

Percentage share of world exports from major producing countries.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India	30.7	30.0	30.0	26.5	28.2	29.2	30.1	28.2	21.9	23.5	26.1	28.6
Bangladesh			1.9	2.9	2.9	3.2	3.9	3.2	3.8	3.7	3.6	3.4
Sri Lanka	32.0	28.5	27.1	28.9	25.3	28.3	25.3	22.8	24.0	22.0	21.5	21.4
Indonesia	5.7	5.9	5.5	5.0	6.9	6.1	6.0	6.3	7.0	7.1	7.9	8.3
China	6.3	7.8	6.9	7.1	8.7	8.2	7.8	10.1	10.6	12.6	12.6	10.7
Turkey	1.2	2.6	2.1	2.6	1.6	0.0	0.0	0.5	0.3	0.7	0.6	0.4
Other Asia	4.0	3.9	3.8	3.8	3.4	3.7	4.0	4.2	4.0	3.6	3.4	3.2
Asia	79.9	79.7	77.3	76.8	77.0	78.7	77.1	75.3	71.8	73.2	75.7	76.0
Kenya	5.5	5.0	6.8	7.3	6.8	7.0	7.5	8.6	10.6	11.1	8.7	8.8
Malawi	2.7	2.7	2.8	3.1	3.3	3.2	3.8	3.7	3.8	3.6	3.6	3.7
Mozambique	2.6	2.6	2.6	2.5	2.4	1.6	1.6	1.9	2.1	2.1	2.1	2.1
Tanzania	1.1	1.2	1.3	1.3	1.3	1.4	1.5	1.5	1.9	1.8	1.5	1.6
Uganda	2.3	2.2	3.0	2.7	2.3	2.3	1.5	1.8	1.1	0.2	0.1	0.1
Other Africa	2.0	2.1	2.3	2.2	2.1	2.1	2.1	2.3	2.8	2.6	2.3	2.4
Africa	16.2	15.8	18.8	19.1	18.2	17.6	18.0	19.8	22.3	21.4	18.3	18.7
South America...	3.6	4.1	3.4	3.5	4.2	3.1	4.0	4.1	5.0	4.5	5.1	4.5
Others	0.3	0.4	0.5	0.6	0.6	0.7	0.8	0.8	0.9	0.9	0.9	0.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: International Tea Committee.

TABLE 8

Value of exports of tea

1,000 U.S. Dollars

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
India	195,702	208,565	212,500	189,801	233,047	291,729	304,858	619,769	442,929	445,287	549,629	596,767
Bangladesh			7,672	11,025	19,000	21,000	28,976	42,460	44,834	29,120		
Ceylon / Sri Lanka	187,543	190,321	187,900	194,549	203,526	272,965	247,384	381,616	403,102	365,413	371,877	
Indonesia	18,299	26,681	29,763	26,079	46,278	51,543	56,574	118,481	94,623	93,974	102,083	100,837
Japan	1,063	1,126	1,234	1,460	1,435	1,521	2,124	3,102	2,976	2,691	2,644	3,033
Turkey	1,710	3,873	3,005	3,647	4,794	140	247	7,435	3,321	6,083	7,733	7,161
Kenya	36,910	34,096	46,230	48,194	54,265	62,558	76,193	173,451	163,514	168,166	156,339	135,323
Malawi	13,099	1,447	15,146	16,879	20,470	24,467	29,136	46,115	34,486	37,446	36,727	
Mauritius	2,530	3,033	3,921	3,566	3,465	2,652	4,405	6,710	9,155	6,059	5,207	5,348
Mozambique	8,142	9,756	11,610	11,300								
Rwanda					2,375	3,607	4,587	9,018	11,066	10,294		
Tanzania	5,986	6,942	7,544	7,706	9,708	10,981	13,357	21,490	21,874	19,877	22,265	
Uganda	13,292	13,400	17,635	15,614	15,345	16,305	10,061	29,367	8,292	1,447	322	
Argentina	9,454	11,736	11,219	5,688	15,877	15,066	15,953	34,783	23,783	22,179		
Brazil	2,796	3,973	3,325	4,270	4,631	4,950	5,508	8,734	10,812			
Papua, New Guinea		1,713	2,406	3,836	5,293	5,016		12,346	11,058	11,217		

Source: International Tea Committee

TABLE 9

Marketed production of some major crops, 1965-1979,
Kenya, ('000 tons)

Year	Wheat	Maize	Rice Paddy	Pyrethrum	Sugar Cane	Cotton	Coffee	Sisal	Tea
1965	172.7	103.8	11.1	0.1	517.7	13.1	39.3	74.0	19.9
1966	128.4	134.3	16.6	0.1	514.6	14.4	56.9	57.3	21.1
1967	162.2	249.0	15.9	0.1	706.4	12.7	43.9	51.7	22.9
1968	216.3	353.9	18.7	0.150	947.2	14.3	39.6	50.3	28.3
1969	241.0	309.0	22.7	0.091	1,300.7	17.1	52.4	49.2	36.1
1970	221.5	206.9	28.5	0.095	1,451.2	14.0	58.3	44.9	41.1
1971	205.7	257.9	30.9	0.143	1,378.0	15.9	59.5	47.2	35.3
1972	153.9	373.9	33.9	0.135	1,062.3	17.9	62.9	41.2	53.3
1973	124.6	440.9	36.1	0.157	1,545.1	16.2	71.2	59.1	56.6
1974	159.5	345.4	33.9	0.196	1,719.1	15.9	70.1	86.5	53.4
1975	145.5	427.9	32.1	0.204	1,664.6	16.1	66.2	43.6	56.7
1976	186.8	564.7	39.3	0.166	1,652.6	15.7	80.3	33.6	62.0
1977	169.0	424.9	41.4	0.131	1,838.1	16.3	97.1	28.2	96.3
1978	165.9	256.3	35.9	0.114	2,349.2	27.3	94.3	31.5	93.4
1979	201.1	211.7	37.5	0.114	3,147.6	27.6	75.1	23.4	99.3

Sources: Statistical Abstracts and Economic Surveys.

TABLE 10

Value of main exports for Kenya in 1979 in K£ Mn

Coffee, unroasted	110.6
Tea	62.0
Petroleum products	31.0
Meat & products	2.7
Pyrethrum extract	5.5
Sisal	4.9
Hides & skins undressed	13.9
Wattle extract	3.9
Soda ash	5.6
Fluorspar	3.0
Cement	3.3
Beans, peas etc.	1.5
Wool	0.7
Animal feed	1.0
Cotton, raw	0.9
Pineapples, canned	0.3
Butter and ghee	0.8
Wood carvings	0.7
Metal scrap	0.5
Other	24.2
Total	295.5

Source: Economic Survey 1980, Table 7.10.

TABLE 11

Kenya Since Independence: Statistical Record of Trade

	1964	1973	1976	1979
Total exports of goods & Services				
- at current prices (K£ mn)	121	271	516	655
- as % of GDP	34	33	35	29
of which:				
tourism	9	24	41	66
coffee	15	36	93	111
tea	6	17	32	63
petroleum products	2	10	58	68
meat etc.	2	4	8	3
hides & skins	1	5	9	14
pyrethrum	2	3	6	6
sisal	6	5	4	5

Source: Economic Surveys & Statistical Abstracts.

G. Conclusion

57. This chapter serves as an introduction to the technology of tea so as to broaden understanding of other aspects of the industry. A second aim here has been to depict the importance of tea as a major crop within and without the Kenyan economy, thereby explaining the special significance attached to it by both transnational corporations in the tea industry and the Kenya Government. In addition, this chapter attempts to show the crucial role of tea in the generation and control of gains, a subject of bargaining between transnational corporations and the Kenya Government.

FOOTNOTES

CHAPTER II

1. Tea is technically defined in Section 2 of the Tea Act (cap. 343) of the Laws of Kenya.

2. For details about cultivation practices, reference is hereby made to the Tea Growers Handbook, 1969 (4), the Kenya Tea Development Authority Cultivation Manual as well as Tea (6).

3. The principles for making tea are derived from the unpublished desertation entitled "The Importance of Tea Industry in Kenya's Economy", J.N. Mandi, former Chief Technical Officer, K.T.D.A.

4. The figures for India are for 1979. Up-to-date figures on acreage were not obtainable.

5. The table excludes or lacks figures for the Peoples Republic of China and the Soviet Union which, judging from their production figures, must have larger acreages than Kenya.

CHAPTER III

TRANSNATIONAL CORPORATIONS IN THE TEA INDUSTRY OF KENYA - CORPORATE PROFILE

A. Introduction of tea to Kenya

58. In 1903, a European settler in the Limuru Division of the Central Province in Kenya imported seeds from India to plant on his farm, the Marbrookie Tea Estate. A sample of this tea was later sent to the Imperial Institute in London for analysis. The results were very encouraging: according to the institute, tea of good saleable character could be grown in the Limuru District of the East African Protectorate with prospects of success.

59. The area of land on which this experimental tea was grown is now part of Brooke Bond's economic empire. The very introduction of tea into Kenya is thus part of the history of the transnational corporations in the tea industry in the country.

60. This chapter shall analyse the activities of transnational tea corporations through a detailed examination of one of the leading TNC's in the Kenyan tea industry and in the world, Brooke Bond.

B. Entry of Brooke Bond into the East African market

61. At the beginning of this century, tea was considered a luxury beverage in East Africa, and its use was confined to the small Asian and European population. The tea trade would remain small until the majority of the African population had adopted the drink. In 1925/1926 for example, 95.5 per cent of tea consumed in East Africa comprised imports from India and Sri-Lanka (then Ceylon).

62. Some of the tea then sold in East Africa was in bulk; this trade was essentially in the hands of Asians. The sale of packeted tea was controlled by Liptons. Around 1922 twinings made a short-lived attempt to challenge the established monopoly.

63. At the time, Brooke Bond was essentially a trading concern operating in the London Tea Auction. Between 1900-1914 the company established tea blending

branches in India and Ceylon in an effort to break-up its dependence on the London Auction, and thus began moving into production as opposed to trading. In 1919, it purchased its first estate in India at Assam and subsequently acquired others. After the First World War, it established a large distribution network in India. 1/

64. A Brooke Bond branch was constituted in East Africa in 1922. 2/ The company's desire to enter East Africa reflected a need to diversify sources of production and markets: the political climate in India in the early 1920's was in element. Another reason for this move was the need to contain competition from the other supply sources. In fact, Brooke Bond intended to breakup the monopoly then enjoyed by Liptons through a vigorous sales drive that would extend to the East African tea market.

65. By 1916, a Brooke Bond agent had been appointed to Nairobi from the Calcutta Office to be sole representative in East Africa for the sale and distribution of all Brooke Bond teas. At the time, the East African tea trade was quite small: from mid-1923 to mid-1924, tea imports to East Africa and Zanzibar were under 1 million lbs. During the same period, Brooke Bond sales in East Africa amounted to about £/50,000. The company's closing sales in 1925 rose to £/50,000, representing 50 per cent total East African imports; these included tea in packets (70 per cent) and in bulk (30 per cent).

66. The economic depression of the 1930's lowered the price of tea even in East Africa. Through prices picked up from the mid 1930s, the dislocation precipitated the need for an international Tea Agreement to include East Africa. Brooke Bond sought to control the home organization that would be created to administer the respective East African quota entailed in the Agreement, especially for the local market.

67. There was rivalry and disagreement over the matter between Brooke Bond and James Finlay, by then actively engaged in tea production operations in Kenya; in 1929, however Brooke Bond became controllers and managers of the East African Tea Growers Association (EATGA) which included Tanganyika (then Tanganyika) and Ugandan producers on the following basic terms:

1. All producers would supply the required quantity of tea from their factories to a Central Packing Factory (CPF) and would meet the transport costs for delivery to the CPF.

2. Brooke Bond would provide blending and packing facilities in the form of the CPF, all necessary financial and sales organization and services, good will and tea trade-marks.

3. In return for these services, Brooke Bond would receive a commission from the gross proceeds of the tea sold on the local market.

4. All smaller selling bodies were to be brought under this arrangement commonly known as the "pool".

TABLE 12

Total Tea Sales in 1937 in East Africa

		LBS	%
Kenya Teas			
	Brooke Bond	1,250,000	56
	Buret	300,000	13
	African Highlands	250,000	11
	Jenji Kapkorech	50,000	2
		1,250,000	82%
Uganda Teas			
	Buchanans	150,000	7
	Uganda Co.	75,000	3
	Miscellaneous	25,000	1
		250,000	11%
Tanganyika Teas			
	Ambangula	125,000	5
	Miscellaneous	25,000	2
		150,000	7%
	TOTAL	2,250,000	100%

Source: Brooke Bond Memo, 1937.

68. Thus prior to the outbreak of the Second World War, Brooke Bond had managed to establish a monopoly over all marketing and distribution of tea in East Africa. The size of the market thus acquired by the TNC is detailed in Table 12. This achievement was in line with the transnational corporation's policy of and interest in controlling marketing rather than actual production: ever since 1930, the main source of profit for Brooke Bond has been tea marketing.

69. Through very aggressive sales and advertising campaigns, Brooke Bond nurtured and developed this market over the ye rs into an important outlet for substantial amount of Kenya's production.

C. Production and development

70. In additio to wanting control of the East African tea market. Brooke Bond wished to develop alternative producing areas to the Asiatic sources. In 1924, the company thus acquired 1,000 acres at Limuru. 3/ And made arrangements with local tea farmers to buy their green tea leaf for processing at the central factory at Mabroukie.

71. In 1925, an agent of James Finlay and Company, then and now the largest tea producing transnational corporation in the world, and a representative of Brooke Bond arrived in Kenya. The Finlay Group bought 20000 acres from the British East Africa Disabled Officers Corporation at Kericho through its newly registered private company known as the African Highlands Produce Company Ltd. 4/ Brooke Bond purchased the remaining 5,000 acres in the area under its own privately-registered limited liability company in the name of Kenya Tea Company Ltd.5/

72. By 1926, tea development and production in Kenya was dominated by these two transnational corporations, two locally-owned public companies, Buret and Jamji, and ten smaller planters. Before the outbreak of the Second World War, the small planters had been reduced to five and the total Kenyan acreage moved from 382 acres in 1924 to 12662 acres in 1934. Production rose in the same years from 1341 lbs to 4024722 lbs and exports from nothing to 2479900 lbs. By 1940 the area under tea cultivation was 15586 acres, and Brooke Bond and James Finaly Groups controlled about 11000 acres of the total. In 1945 Brooke Bond bought out Jamji and thus came to hold about 3000 hectares of mature tea.

73. Meanwhile, after initial abortive attempts in 1929 and 1930, restriction on tea growing through an international Tea Agreement was gaining momentum. The agreement sought to ensure:

a) That tea exports should be regulated in order to restore the equilibrium of supply and demand;

b) That Governments of producing countries should prohibit exports in excess of agreed quotas;

c) That the basis of regulation should be the maximum exports reached by each country between 1929 and 1931;

d) That no new planting should take place and that seed exports to non-participating countries to be prohibited.

74. Despite pressure from the local settlers opposed the scheme as one that would restrict development, the East African Colonial Governments gave in to the stronger lobby of transnational tea corporations in Kenya who preferred a restrictive policy. It is significant to note that this scheme was in debate, the Chairman of the International Tea Council was also Chairman of the Finlays Group. In 1933, the Government in London capitulated to the wishes of the transnational corporations in acceptance of the International Agreement for East Africa for a 5 year period

75. Under the Agreement, restriction was as follows:

TEA ACREAGES UNDER INTERNATIONAL TEA AGREEMENT, 1933

	Uganda	Tanganyika	Kenya	Total
Existing Acreage in 1933	740	2500	12,200-15,000	15,540-18,240
Maximum Increases until 1939	1260	2500	4000	7760

76. Attempts at renewal of the agreement for Kenya after expiry in 1939 were vehemently opposed by the small planters and the Kenyan Colonial Government. Once again, the transnational tea corporations prevailed and secured an extension to the agreement during the war and for 5 months thereafter provided that an allowance for 1000 acres of additional planting be made.

77. Restrictions under the renewal of the agreement were as follows:

	Existing Acreage	Extensions Granted
Kenya	16162	3232
Uganda	4716	943
Tanganyika	7450	4040

78. Production was therefore constrained between 1934-1947, during the period of the international agreement, as a result of a major strategy of the transnational tea corporations, Brooke Bond included. The situation changed thereafter. Between 1939-1942 tea production actually fell from 10.2 to 10 million lbs. of made tea, while consumption rose from 2.56 to 6.75 million lbs. This represented a consumption rate of 67 per cent of the entire Kenyan production.

79. The high consumption attracted good internal market prices; international prices had also picked up from their depressed levels. With lower labour

and taxation costs as compared to the rates applicable in India and Ceylon, the Kenyan climate was deemed suitable for expansion: consequently, the Brooke Bond and James Finlay Groups grew in Kenya from 1947 on.

80. Table 13 shows the record of production development for the period 1924-1947.

TABLE 13

Tea production in Kenya, 1924 - 1947

(in lbs)

1924	1300
1925	2200
1926	2700
1927	32400
1928	152200
1929	577200
1930	930200
1931	1500200
1932	2421100
1933	3016400
1934	4024700
1935	6301400
1936	8611100
1937	10303000
1938	10240500
1939	10250000
1940	11913000
1941	14223000
1942	16250000
1943	13091000
1944	13790000
1945	13023000
1946	12277000
1947	13324000

Source: Agricultural Census, 1924 - 32
Tea Controller 1933 - 49

D. Further expansion and consolidation

1. New technology

81. By 1946, Brooke Bond had introduced the use of vegetative propagation in its Kenyan operations: this new method increased yields tremendously. Improved plucking techniques accompanied these agronomical developments. Between 1958-1975, yields per hectare doubled. In 1960, Brooke Bond changed from the Orthodox to the CTC mode of manufacture in its Kenya operations, to take advantage of the rise in price of CTC teas. It also adopted "trough withering"

TABLE 1A

Tea production, yields, acreage and costs, 1958-1971

YEAR	TOTAL PRODUCTION MADE TEA IN KGS.	YIELD/HECTARE MADE TEA	HECTARES	COST OF PRODUCTION IN CTS. PER KG OF MADE TEA
1958	4,146,402	1425	2909	458
1959	4,650,092	1559	2982	369
1960	4,756,971	1536	3097	396
1961	4,275,155	1324	3229	443
1962	5,434,284	1556	3492	383
1963	6,113,306	1655	3707	366
1964	6,915,519	1728	3942	359
1965	5,797,389	1394	4156	403
1966	6,637,267	1566	4239	399
1967	5,312,238	1210	4391	496
1968	7,095,101	1588	4466	427
1969	7,904,577	1753	4509	407
1970	9,051,905	1987	4565	353
1971	7,559,420	1679	4562	419

to enhance the leaf drying process, by designing troughs with good ventilation by utilization of warm air from the rest of the factory system. Brooke Bond introduced the C'A system of fermentation, which had the advantage of achieving desired degrees of leaf fermentation in minimum space and under better control. The company also started to converse its tea factories from oil to wood firing systems: empty Brooke Bond land was planted with wood fuel blue-gum a cheaper source of energy than oil.

82. These developments bolstered Brook Bond's production considerably: by 1968, the company accounted for 3/4 per cent of the entire Kenyan Production. The production record is shown in Table 13.

2. Take-overs and mergers

83. In 1962, a merger took place between parent-companies of Brooke Bond and Liebig Meat Company (U.K.), Britain's largest meat extract processor that had been operating in East Africa since the 1920s.

84. The Liebig venture in Kenya was among the very few assisted by the Colonial Government during those early days: it consisted of joint financing in the construction of a meat processing plant near Nairobi for Leibig, Kenya offered an alternative to Rhodesian supply of meat. For its part, the state was interested in promoting such an enterprise.

85. The Government guaranteed that a certain quota of cattle would be delivered to the factory each month. Government destocking ordinances were to enforce this through-put of cattle. On one hand, the interests of the settlers would be served by finding export markets for their meat; on the other the state had found an excuse to destock the Kamba people's herds, as it felt that the land in the Kamba region was severely overgrazed. The Kamba people, however, successfully resisted this policy for several years, with the result that Leibig's factory was not able to function at full capacity. The Liebig company continued however to manage the factory and market its products.

86. The merger of the two transnationals entailed the assumption of influence and control by Brooke Bond for both meat processing and distribution. The Kenya Government, however, took over the meat production plant leaving the marketing aspect alone in the hands of Brooke Bond. In 1974 the Kenya Meat Commission, a statutory corporation of the Government, took over the marketing end as well.

87. Brooke Bond for its part, went on with its take-over policy: in 1967, it gained 30 per cent interest in Kabazi Canners, a fruit and vegetable canning plant owned by Kenyan Indian industrialists. In 1968, it took-over an existing fly-tying factory in Kerico or bought an equity interest of £ 2000 in East African Acceptances, a local company primarily involved in farm -including tea and coffee management and financing.

88. In 1971, Brooke Bond took over the European owned Buret Tea Company for £350,000 thereby adding about 2100 acres of mature tea to its existing estates. The company was purchased through a loan raised with the Grindlays Bank International, another British banking transnational corporation.

3. Opposition

89. Brooke Bond made an attempt to take over the Kamiti Valley Coffee Estate a profitable venture formerly owned by Europeans. The application for purchase which had already been agreed between the contracting parties was passed over for approval by the Government Capital Issues Committee.

90. The Capital Issues Committee turned Brooke Bond down, accepting instead the application for purchase by a local farmers group owned by the then Chairman of K.T.D.A. and TIKA Holdings.5/ Africans in powerful public offices who were directly involved in production, owning both tea estates and manufacturing plant facilities. As part of a local economic entry that has, through use of powerful bureaucratic, political and social positions been able to accumulate capital and even competition with international capital, the group posed the threat to Brooke Bond.

91. During the 1970s the Kiambu, Kericho and Nandi Districts, large-scale African farmers developed their own tea estates and handed the leaf either to a foreign firm or the Kenya Tea Development Authority for manufacture. In 1975 Limuru, share-holdings were in this order:

HECTARES		HOLDERS
2,889.5	-	K.T.D.A. Small Holders
2,815.5	-	Big Private Growers
5,705.0		
689.9	-	Brooke Bond
297.0	-	Kamirana Estates
907.0	-	Companies
909.0	-	Private Individuals

92. Kamirana Estate was owned by the Inchcape group - a transnational corporation which controlled Mackenzie Delgety, the powerful Kenyan conglomerate. The Inchcape interest in Kamirana was subsequently purchased by Mwamu Holdings, a local company jointly owned by the Chairman of Mackenzie Delgety and the Chairman of Lonrho in East Africa.

93. This powerful class of Africans restrained the activities of Brooke Bond. Through their pressure, the Government required that 11 per cent of the shares in Brooke Bond be sold to it in 1975. This level was later raised to 20 per cent of shares, and the company was required to go public.

94. The Capital Issues Committee was formed in 1971 for the purpose of negotiating with Brooke Bond the proposed offer of shares at the local Nairobi Stock Exchange. The Committee was therefore expressive of nationalistic attempts to control foreign capital in the form of transnational corporations such as Brooke Bond; the latter's acquiescence was an attempt to assuage or accommodate nationalistic pressures.

95. In the spirit of nationalism, Brooke Bond was a target of attack for its control of the local tea market and for its exploitation of Kenyan workers, peasants and consumers. During Parliamentary debates in the Kenya National Assembly, strong criticism was leveled against the TNC.

96. The African bourgeoisie was not spared either: the group was accused of being in league with foreign capital in exploiting the Kenyan economy. 7/ Nevertheless, the economic pursuits of this group were responsible for halting any further land expansion by Brooke Bond in the field of tea after the company's purchase of Buret Tea Company.

97. Thus checked, Brooke Bond pursued its mergers elsewhere. In 1974, to cater for its enhanced tea production which had reached a level of 9 million kgs. of exports, the company built an instant tea factory near Nairobi for the local market. The technological know-how for this factory was provided by the parent company and was not developed locally.

98. In all these mergers and/or take-overs, concentration of control and forward linkages of production, marketing and distribution of food and beverages is self evident. By 1970, the transnational corporation controlled and distributed a variety of canned foods, tea and coffee both abroad and on the local market. For the latter, distribution was through about 250 African retail agents. In 1974, the Government once more stepped in and forced the corporation to distribute products through Kenyan wholesalers, thus limiting the transnational corporation's profit margins arising out of whole-sale distribution business.

4. Diversification

99. By 1972, Brooke Bond's all-over interests in Kenya were as follows:

75 per cent - Estates (Tea and Coffee)
15 per cent - Marketing (Canning Packing and distribution)
10 per cent - Trading, Warehousing, fishing, flies, travel and hotel interests

100. In its Annual Report of 1972, the company stated its intention of moving away from further expansion in the Orthodox agricultural sector through consolidation elsewhere.

101. Even before publicising this intention, Brooke Bond had undertaken research into the development of industrial crops. The company devised a novel programme for growing cinchona and tara on a commercial scale in Kericho district.

102. Cinchona are trees whose bark contains quinine salt which is used in the drug and mineral water industries. The commodity can only be collected at random from Indonesian forests and its commercial planting is therefore of great promise. By 1975, Brooke Bond had 750 hectares of cinchona. In its first sales of quinine bark in Europe, the company made gross revenues of £250,000. The venture continued successfully.

103. Tara is the powder from the pods of the spinosa trees. It is a rich source of two chemicals, tannic and gallic acids. By 1974, tons were exported from Kenya to the Scottish tanning industry. This venture is also a promising one.

104. More recently, Brooke Bond has moved into the production and export of carnations through acquisition of a company called Sulmac. At the end of 1980, Brooke Bond bought out the outstanding minority shares in Sulmac and the enterprise became wholly owned. The newly-acquired company was able to pay £250000 in 1981 for the ordinary shares and to shoulder loans of £5250000 from the minority shareholders over 3 years. 2/

105. Brooke Bond is also active in sisal production at Kibwezi, and in plumosus, agricultural and horticultural produce at its experimental farm at Musongaleni. It is viable in the chemical industry through its company, Murphy Chemicals, and is, of course, greatly involved in the tea export trade in Kenya though its subsidiary, Brooke Bond Mombasa; the latter buys tea from other producers, from Brooke Bond's estates and from the Mombasa Tea Auction.

E. Achievement

1. General

106. The performance of Brooke Bond as a transnational tea corporation has already been charted. At the end of 1982, the corporation boasted a total of 5836.50 hectares under tea and 9 tea processing factories.

107. Its more recent development in the tea industry is summarised in the table below:

Table 15

Brooke Bond production, 1972-1981

Year	Planted Hectarage	Made Tea (Kgs.)	No. of Factories
1972	5 778.80	14 967 365	9
1973	5 781.40	14 951 911	9
1974	5 798 .30	12 850 620	9
1975	5 800. 40	13 522 223	9
1976	5 800. 40	13 196 276	9
1977	5 802. 10	17 658 870	9
1978	5 830. 00	18 182 693	9
1979	5 833. 50	19 750 301	9
1980	5 833. 50	17 922 641	9
1981	5 836. 50	16 219 821	9

Source: Brooke Bond Kenya Limited i.e. cards

108. In 1973 alone, of the 60 million kg produced, Brooke Bond's share was 23 per cent about 21 million kg. Through Brooke Bond Mombasa, its tea trading

company for East Africa, Brooke Bond handled 41 per cent of total exports for the year. Of course, it also managed the entire local turn-over through control of the pool.

109. Brooke Bond's Coffee Company is among the several large estate coffee compnaies in Kenya; its Kenna Coffee Ltd. is among the leaders in coffee exports in Kenya. 9/

2. Present

110. From 30 June 1981 to June 1982, Brooke Bond Kenya Ltd. achieved a group profit before taxation of Kshs. 62575000, a 5 per cent increase over its 1981 performance. Dividends rose from 24 to 9 per cent on the Company shares.

111. The performance of Brooke Bond Mombasa was recorded as particularly satisfactory. It recorded the value of its export trade as Kshs. 526 million. A total of Kshs. 33 million was paid to the Government in the form of direct taxes, and Kshs. 120 million to the employees in the form of remuneration and benefits. Expenditure on employees welfare is reported as amounting to Kshs. 21 million.

112. In April 1982, the company changed its name from Brooke Bond Liebig Kenya Ltd. to Brooke Bond Kenya Ltd. following the sale by the parent company of the Liebig companies in Europe.

113. The balance sheet of the company follows as Table 16.

F. Organization

114. Brooke Bond Kenya Limited controls local subsidiaries involved in tea and coffee estates, tea and coffee factories, tea trading, food processing and canned foods, chemicals, carnations and more.

115. The local company, like the subsidiaries, is owned by Brooke Bond & Co. Ltd. of London, Britiain, the holding company for the Group and is therefore ruled therefrom. The Group is among the major transnational corporations of the world.

G. Other producers

116. In contrast to Brooke Bond and the K.T.D.A., the other principle Kenyan producers with their current productive capacity indicated are listed below:

Producer	Acreage in Hectares	Made Tea in Kgs.	No. of Factories Owned
African Highlands Produce	6,909.73	13,004,020	7
George Williamson Kenya Ltd.	1,980.50	4,420.516	4
Eastern Produce Africa Ltd.	3,381.12	7,383,904	6
Mitchell Cotts	717.56	1,436,429	1
Others	3,349.06	7,173,009	11

Figures are for year, 1981. Not all tea is made in a producer's owned factory.

Source: Tea Board of Kenya Records.

117. Save for the category termed "others" the producers are all transnational tea corporations.

TABLE 16

Brooke Bond Kenya Limited

Balance sheets at 30 June 1982

	GROUP		COMPANY	
	1982 Shs'000	1981 Shs'000	1982 Shs'000	1981 Shs'000
CAPITAL EMPLOYED				
FIXED AND LONG TERM ASSETS				
Fixed assets	710,993	719,672	632,307	645,586
Subsidiary companies	—	—	80,308	81,787
Investments	20,124	16,757	20,124	16,757
Long term debtors	7,656	9,925	7,321	9,835
	738,773	746,354	740,080	753,965
CURRENT ASSETS				
Stocks	115,503	100,582	93,720	69,072
Debtors	56,560	59,562	43,099	48,604
Group companies	26,832	25,757	46,394	42,062
Cash	996	778	734	586
	199,891	186,779	184,947	160,324
LESS CURRENT LIABILITIES				
Creditors	54,424	28,804	44,212	19,427
Group companies	5,734	5,276	7,342	7,756
Current taxation	34,793	24,567	33,244	31,807
Dividends	20,563	19,340	20,563	19,340
Borrowings (secured)	105,547	126,918	99,105	99,423
	221,061	214,905	204,466	177,753
NET CURRENT (LIABILITIES)ASSETS	(21,170)	(28,126)	1,481	(17,429)
	717,603	718,328	741,561	736,536
FINANCED BY				
CAPITAL AND RESERVES				
Ordinary share capital	244,375	244,375	244,375	244,375
Reserves	443,939	435,997	452,946	476,081
Shareholders' funds	688,314	680,372	697,321	720,456
MINORITY INTEREST	7,489	7,556	—	—
MEDIUM TERM BORROWINGS (secured)	21,800	30,400	44,000	16,080
	717,603	718,328	741,321	736,536

FOOTNOTES

CHAPTER III

1. See D. Wainwright, Brooke Bond, a Hundred Years, (Brooke Bond Ltd., 1969) 29-31

2. A Brief History of the East African Branch of Brook Bond & Co. (India Ltd.) - An Article by G. Pollard - Brooke Bond's employee in the 1930s - Brooke Bond Company files, Nairobi.

3. Land Registry Records Nairobi - This is the land around the estate where the tea experiment earlier referred was carried out.

4. Lands Registry Records.

5. See J. Donovan, Stock-brokers Report, 1972.

6. See the East African standard Issues of 4th and 24th April, 1974 & Parliamentary Hansards on the subject - Contribution to Parliamentary Debates by M. Seroney & M. Shikuku.

7. Annual Report and Statement of Accounts for the Year ended 30 June, 1971 of Brooke Bond Kenya Ltd.

8. Who Controls Industry in Kenya, op. at., pp. 17 & 19.

9. Annual Report and Statement of Accounts for the Year ended 30 June, 1971 of Brooke Bond Kenya Ltd.

CHAPTER IV

KENYA TEA DEVELOPMENT AUTHORITY
(K T D A)

A. Background

118. The history of smallholder tea development in Kenya can be divided into three distinct periods - the experimental phase, the creation of the Special Crops Development Authority (SCDA) and the establishment of the Kenya Tea Development Authority (KTDA).

1. Experimental phase

119. In the 1950's under the direction of the Department of Agriculture, tea gradually evolved as a major cash-crop alternative for African farmers living in high altitude areas. The cultivation of tea by smallholders was approached with 'utmost caution', partly because of arguments advanced by Europeans and more specifically by the Swynnerton Plan of 1955, against African cultivation of lucrative cash crops but also because of real technical organizational and financial constraints. Unlike coffee and pyrethrum, tea requires not only a higher capital outlay for the construction of processing facilities, but it must be delivered to such a facility within six hours of being plucked.

120. Two major questions arose: firstly, could the 'African peasant farmer' adapt to the stringent prerequisites for proper tea cultivation, and secondly could a collection system be devised to deliver tea efficiently and in prime condition to a factory. The first challenge essentially constituted an extension problem, the second, a physical constraint.

121. Smallholder tea development was started on a pilot-project basis in Nyeri and Kericho with a view to determine its suitability as a smallholder cash crop. Initial farmer interest and cultivation standards proved encouraging and following the Emergency, tea planting was expanded to other areas of Central Province. This early development was financed by the Kenya Government through two statutory bodies: the Central Province African Grown Tea Marketing Board and Nyanza and Rift Valley Tea Marketing Board. Government loans were made to the Boards to finance nursery expenditure and, in the case of the Central Province Board, to finance the Ragati Factory at Nyeri that opened in 1957. Other costs were met out of recurrent Government expenditure.

122. By 1959, the area planted with tea totalled 116.73 hectares (206 acres) in Nyanza and Rift Valley and 495.12 hectares (1 223 acres) in Central Province, distributed as shown in Table IV.

123. Of particular concern by now was that the tea project on the existing scale and mode of operation, would cause too great a drain on manpower and finance. To extend the project into new areas would require better staffing arrangements, larger and more secure sources of funding and a planning apparatus that would relate tea planting programmes to requisite levels of staffing, leaf collection transportation networks and processing facilities.

Table 17

Pre-1959/60 Planting programme

CENTRAL PROVINCE	
Nyeri	253.68
Muranga	4.85
Embu	150.60
Kiambu	82.39
Meru	-
	495.12
NYANZA PROVINCE	
Kisii	48.58
N. Nyanza	2.02
	50.60
RIFT VALLEY PROVINCE	
Kericho	66.80
Nandi	2.42
	69.22
TOTALS	
Central Province	495.12
Nyanza	50.60
Rift Valley Province	69.22
	614.94

124. In March 1959, a joint mission comprising representatives from the Colonial Development Corporation (the present Commonwealth Development Corporation), private tea companies and the Kenya Government toured the scheme and reacted favourably to the ability of the African farmer to grow tea of high quality. However, the mission was not convinced of the Government's ability to control an enlarged and expanded project in view of the financial position in Kenya and availability of supervisory staff.

2. The Special Crops Development Authority

125. In October 1959, the Kenya Government set up a working party to examine the need and modality for a new Authority to finance, manage and supervise smallholder development with special reference to tea. The recommendation was for establishment of the Special Crops Development Authority, on the assumption that it would prove impossible to interest commercial capital in building tea factories without guarantees that the field side of operations was organized and stable.

126. In January 1960, on instructions of the Kenya Council of Ministers, another Working Party was set up to consider the financial implications of the proposed small holder development authority. Reflecting the commercial foundation of the proposed Authority, emphasis was placed on control, planning supervision and financial stability. Hence, the Authority would be a statutory body with power to raise funds, make loans and hold and dispose of property. All costs would be recovered and adequate finances would be made available to ensure the successful completion of a development programme.

127. Furthermore the Authority would not have a direct role in field supervision; instead, the Department of Agriculture staff would be responsible, with the cost of their services reimbursed by the Authority. Factory development would be closely co-ordinated with the tea planting programme: once 1 200 acres had been reached, the Authority would negotiate directly with a commercial concern for the construction of a factory.

128. To assure high quality tea for processing, the Authority would be directly responsible for the inspection, purchase, collection, transportation and sale of green leaf to the factory companies. A fixed price for green leaf would be agreed upon and each factory company would be responsible for the marketing of its made tea.

129. A second area of concern was whether the commercial basis of the Authority's operations would reduce the return to the grower to a point of deterring the success of the project. The whole cost of development would be borne by the growers themselves. They would receive loans in form of materials and services; cesses to repay capital and recurrent expenditure would be deducted from each kilogram of green leaf delivered prior to payment.

130. The second working party suggested several changes in emphasis and substance based on more than just financial considerations. First Government guarantees of improvement and maintenance of designated leaf collection roads (tea roads) became a major precondition for the Authority's creation. Secondly, more detailed costing of the project called into question the proposed cess of

Kcts 12 per pound of green leaf. A decision to deduct kcts 17 per pound of green leaf was taken - 7 cents being capital repayment and 10 cents as contribution to recurrent costs. Concern was expressed at the heavy burden tea growers would have to bear in contrast to other cash crops. However, as the Government was not prepared to subsidize the scheme, the only alternative was for operation on a commercial basis.

131. The structure of the Head Office began to take shapewith provision for the following posts:

Chief Executive Officer
Chief Technical Officer
Executive Assistant
Transport Officer
Accountant
Accounts Assistant

132. The planting programme (The First Plan) envisaged planting 9 416 acres (3 812.15 hectares) by 30 June 1967.

133. In order to meet a shortfall in expected funds from C.D.C., the World Bank, which did not have a real policy on agricultural financing at the time, was approached. In 1963 the Authority became one of the Bank's earliest beneficiaries in agro-industry in the world.

134. Two points had clearly emerged from the early history of the Authority: the basic organization and mechanism of the Authority were workable and the enthusiasm generated among the growers would go beyond the current programme.

3. The Kenya Tea Development Authority (KTDA)

135. Two important events took place in 1964 successful negotiation for funding a further (second) planting programme and establishment of the Kenya Tea Development Authority (KTDA) to replace the SCDA.

136. Through various representations, agreements were reached for the World Bank to finance field sector expenses, and for the CDC to continue financing existing factories and new ones envisaged, under the new plan. The extent of financial commitments by the various donors covering the first and second plans are shown in Table 12.

137. By 1964, it had become obvious that GCDA would not be responsible for the introduction of any additional cash crops as had been the intention at inception. With the negotiation for a Second Plan and the consequent need to make revisions in the organizations to accommodate the expanded programme, the creation of the Kenya Tea Development Authority was a logical progression.

4. Statutory objectives and goals

138. On 20 January 1964 and under the promulgation and provisions of the Agriculture (Kenya Tea Development Authority) Order as made under S. 101 of the Agriculture Act (Cap 318) of the Laws of Kenya, and through Legal Notice No. 42 of 1964, the Kenya Tea Development Authority (KTDA) was established 1/ and charged with the statutory responsibility of fostering the development of tea for small holders. This entails:

(a) Management of tea seed cultivation;
(b) Development of tea husbandry and its maintenance;
(c) Handling of tea leaf as harvest;
(d) Organization of manufacturing capability and capacity;
(e) Tea manufacture;
(f) Tea marketing;
(g) Development of a sound technical and administrative personnel base as a vehicle for carrying out what is set-out above;
(h) All the above for and on behalf of the small tea growers and more specifically for their economic advancement and well being. 2/

B. Position of the K.T.D.A. versus transnational corporations

139. The functions cited above clearly define the KTDA as a corporation engaged in the tea industry, therefore putting it in the same line of business as the transnational corporations under consideration in this study. The establishment and subsequent growth of the KTDA as an important corporation in the field of tea can easily be construed as challenging transnational corporations in the Kenyan Tea Industry. Furthermore, because of its constitution as a statutory corporation for the benefit of the national public, KTDA's challenge to the TNC is essentially nationalistic.

C. Dominance of the transnational corporations versus the KTDA

1. Agriculture

140. As seen earlier, growing tea in Kenya had previously been the domain of foreign companies and more expressly transnational corporations, which long dominated the fields of tea husbandry and planted acreage. By virtue of experience accumulated

TABLE 18

Financial commitment:
First and Second Plans

	Kshs.
Field Sector	
International Development Association	20,000,000
Commonwealth Development Corporation	18,000,000
Kreditanstaltfur Wiederaufbau	4,240,000
Kenya Government	400,000
Loans taken over from former Marketing Boards	540,000
DTDA Revenues (estimated)	38,820,000
	82,000,000
Factory Sector	
Commonwealth Development Corporation	24,000,000
Commercial Tea Companies	14,000,000
Kenya Government	7,000,000
Associated Finance from Kenya Government	
Field Staff Housing	2,000,000
Roads	17,000,000
	19,000,000
TOTAL	147,400,000

in Kenya and elsewhere in the world. TNC dominance extended to possession of the latest and most refined technical knowhow in the sciences of tea husbandry, agronomy and agriculture.

2. Production

141. Linked to dominance over planting is production. Transnational corporations as a group have always owned more land under tea cultivation and thus held greater control over production of tea than the smallholders in the Kenyan tea industry.

3. Manufacture

142. At the inception of KTDA, it was envisaged that tea from small holdings would be manufactured in KTDA factories. Transnational corporations again played a role through their appointment as consultants over the construction project; other contractors and architects involved in this phase who would also be foreign firms.

4. Managing agency relationship

143. Management arrangements between KTDA an the main transnational corporations were highly significant. They covered administration and management of KTDA tea factories and the companies that owned these tea factories.

144. The early KTDA tea factories and the companies that owned them were assigned to the transnational tea corporations through management agreements drawn up by the European law firms that had traditionally acted for the TNCs in Kenya.

145. Under the terms of these management agreements, the entire management of KTDA tea factories and the companies that owned them, ranging from tea manufacture, factory engineering and maintenance, factory personnel and sales of tea, was vested in the transnational corporation concerned.

146. Through standard clauses, the agreements generally provided remuneration to TNCs for services as managing agents thereunder. Annual payments accruing to TNCs are listed below:

(a) A fee of Kshs. 30000.- (reduced by one-half if the commission payable in any year in the following sub-paragraph exceeeds the sum of Kshs. 50,000/-) for the management of the company and all regular secretarial and accounting work in respect of any special and non-recurrent operation for which a special fee has been given to the company;

(b) A commission at the rate of 2 per cent on gross proceeds of sales of tea produced by the company during the given year;

(c) A commission of 2½ per cent on all purchases made by the managing agents for the company other than green leaf and those made locally in the factory area by the factory manager;

(d) An additional commission of 1 per cent on the gross procees in a given year of sales of tea produced by the company other than

1. Sales by auction
2. Sales to the Associated Tea Growers of East Africa
3. Sales through a recognized Broker

147. The first sum of Ksh 30000 was payable to the managing agents every year in 12 monthly instalments payable on the first day of every calendar month; the other forms of remuneration would be paid as soon as the managing agents were able to ascertain the dues.

148. There was provision within the agreements for disbursements to the managing agents by the company of all outgoings other than the costs for normal duties of management. There was also provision that the Managing Agents could retain such allowances as they may receive in the capacity of agents, sub-agents or brokers for other firms or corporations as well as the right to indemnity for any liability arising against them in the course of their duties as Managing Agents.

149. Except for the Ragati Tea Factory, ten of the first KTDA tea factories were managed to this manner by TNCs under the following order of apportionment.

Managing Agent	No of Factories
James Finlay	4
Brooke Bond	3
George Williamson Africa Ltd.	2
Eastern Produce Africa Ltd.	

5. Control of marketing

150. Throughout the history of the tea industry, marketing was in the control of transnational corporations. Marketing here include trading in tea as well as its blending and distribution. TNC domination in the area both locally and on the world markets over KTDA has been most crucial.

6. Other areas

151. The dominance and control exgdnds to other areas related to the management of tea production such as sources of finance, machinery and spare-parts, other inputs and shipping where transnational corporation dominance is strongly felt.

D. Growth

152. The remarkable growth of WTDA, a response to transnational corporation domination, appears to have been an attempt at redressing the imbalance created by TNC control. WTDA implemented a series of plans and programmes whose realization have had the effect of lessening the degree and magnitude of TNC dominance.

153. WTDA plans and programmes can be classified under five categories.

1. Planting programme

154. As previously noted, in its formative and inception phase WTDA successfully brought a total of 27000 acres under cultivation. Production rose to 40[illegible]126 kg and 8 [illegible]3 005 kg of green leaf and made tea respectively. The third tea planting plan which set out to achieve an annual planting record of about 14 230.[illegible] acres over a 5 year period starting in 1967/68 and ending in 1971/72 was completed in 1971/72, exactly one year ahead of schedule. It brought the total area under tea to 57 701.6 acres. Crop levels shot to 51 010 913 kg of green leaf and made tea respectively.

155. The Fourth Tea Planting Plan was prepared and appraised in 1972. It envisaged the planting of a further 45 000 acres over the period 1972/73 to 1977/78. The Plan was earmarked for implementation according to the following schedule:

YEAR	ACRES TO BE PLANTED
1972/73	7 500
1973/74	8 100
1974/75	8 100
1975/76	8 100
1976/77	7 200
1977/78	6 000
TOTAL	45 000

156. By the end of June 1977, the Fourth Tea Planting Plan had been exceeded by 5 035.[illegible] acres, bringing the total WTDA acreage under tea to 103 004.[illegible] acres. Total production had therefore risen to 151 [illegible]70 147 and 33 [illegible]2 607 kg. of green leaf and made tea respectively.

157. In order to cover the excess plantings of 5,035.[illegible] acres under the Fourth Tea Planting Plan, the Fifth Tea Plan was allowed beginning in the 1977/78 year. It ran until June 1982 including the over-run period. The plan earmarked the planting of 25 000 acres of tea and was successfully completed on schedule.

158. By 1971, WTDA had more tea on the ground than the rest of the tea industry including all transnational corporations put together, thus eliminating by the end of the programme period TNC domination in terms of acreage.

2. Factory construction programme

159. KTDA undertook an ambitious construction programme which envisaged building 41 factories to serve the planted acreage.

160. The plan was subsequently revised and the number of the factories required brought down to 39. So far, 33 factories have built and are operational. The final 6 factories are at advanced stages of construction.

161. Under this programme, KTDA surpassed the capacity of any other single tea corporation in terms of number of manufacturing plants. It has almost ceased to deliver tea to the factories owned by the transnational tea corporations as had been its practice in the past.

3. Take-over programme

162. KTDA took steps to terminate the managing agency relationships it had with transnational tea corporations, through invocation of break-clauses built in to the management agreements.

163. Brooke Bond was the first to loose its three factories, followed by James Finlay, Eastern Produce and George Williamson in that order. The termination dates were 1976, 1977, 1981 and 1982, respectively. At present KTDA tea factory company is under management of a transnational tea corporation.

4. Management programme

164. All the tea factories constructed by KTDA and those taken over from the former managing agents were amalgated within KTDA's management system. As a holding corporation, KTDA has thus assumed the management role hitherto vested in the transnational corporations over its tea factories and the companies which own them.

5. Other programmes

165. With a controlling hand in the direction and pace of its development and operations, KTDA continued its policy of self reliance and consolidation. For example, it has supervised and directed the construction of all its tea factories through creation and utilization of an Engineering Department that is also responsible for direct machinery installation in some factories. Tea manufacture is carried out fully and entirely by KTDA personnel. The Authority has managed to convert 6 of its tea factories from oil to wood firing systems in the wake of the escalation of the oil prices in the 1970s. Savings from this conversion amount to about Kshs. 1 per every kg. of tea made.

166. The standard KTDA tea factory has a theoretical capacity of 1.2 million kgs. of made tea. In view of the disturbing decline in prices for Orthodox teas as opposed to CTC teas, KTDA converted its two Orthodox tea factories to CTC design, thus achieving savings of about Kshs. 2/- per every kilogramme of made tea.

167. The conversion, however, permits return to the Orthodox mode at nominal costs through adoption of a dual manufacturing system.

168. The Authority is curre tly engaged in expanding the factories with low capacity so as to reach the target capacity of 1.° million kgs. of made tea.

169. As regards marketing, KTDA handles private treaty sales transactions and has its own marketing personnel in this regard. The Authority also provides secretarial services to its numerous companies without reliance on professional firms. Finally, KTDA is an insurance broker and therefore handles its insurance directly at a saving.

E. Achievement

170. Successful implementation of these programmes has resulted in tremendous growth and development of KTDA within a comparatively short period of two decades. As of June 19°2, the Corporation controlled 52 743.26 hectares of land planted with tea, which yielded 159 9°° 466 kg. of green tea, discounting loss in transit.

171. It is serving a total of 143 617 small tea growers or families with a projected dependency population incidence of about 1 million people. In 19?1/°2, KTDA pumped a total of Kshs. 4°° 744 000 as earnings from sales into the national economy.

172. In t e following table, the record of this performance has been tabulated.

TABLE 12

10 - Years Summary of Green Leaf Payments

Financial Year	Weight in Kgs.	Rate of Payment in cts/Kg.	Total Payment
1972/1973	65,775,9??	97.00	64,??0,000
1973/1974	65,940,460	121.00	79,910,000
1974/1975	73,673,??5	140.00	102,959,000
1975/1976	??,759,?97	160.00	141,?10,000
1976/1977	129,201,??0	342.00	442,39?,000
1977/1978	151,779,147	22?.00	360,671,000
1978/1979	172,094,150	233.00	401,911,000
1979/19?0	137,9??,???	275.00	379,?96,000
19?0/1981	145,933,?71	259.00	265,731,000
1981/1982	159,95?,436	262.00	41?,744,000

173. KTDA teas are of very high quality and are mainly used by packers for blending with inferior teas. The table below lists average price for teas on the London Auction, illustrating this point.

Table 20

Average tea prices, London Auction

N. India	Kshs. 15.63	20.92	22.74
Sri-Lanka	Kshs. 19.97	17.96	21.40
Kenya	Kshs. 20.89	21.50	23.63
All Teas	Kshs. 16.00	19.96	22.00
KTDA	Kshs. 24.72	23.13	25.50

Source: Nairobi Times, 12/1/1983

174. The speed and scope of growth is clearly perceived through a comparison between KTDA and the rest of the Kenya tea industry, which is basically comprised of the transnational tea corporations. This is shown in Table 21.

175. Today, KTDA is not only the largest single tea corporation in Kenya and world-wide but also the only successful small-holder national tea project in the world.

F. Organizational structure

176. Three reasons account for the apparent success of KTDA as an agrarian project:

(a) The support given by the Kenyan Government;

(b) The industry and dedication of the small growers served by the Corporation;

(c) The solid organizational structure of the Corporation and the nature of its personnel.

1. Ministerial control

177. Under the KTDA Statute of Incorporation, the Minister for Agriculture is the Supreme Office as far as reference on crucial matters of policy is concerned.

TABLE 21

Distribution of land under tea cultivation, 1963-1976

DATE	PLANTED HECTARAGE		
	Estates	Small-holders	Total
1963	17 921	3 527	21 448
1964	18 598	4 471	23 069
1965	19 327	5 429	24 756
1966	20 102	7 238	27 340
1967	20 809	9 260	30 069
1968	21 329	12 233	33 562
1969	21 940	14 695	36 635
1970	22 299	17 995	40 294
1971	22 838	20 528	43 366
1972	23 268	26 495	49 763
1973	23 635	31 161	54 796
1974	24 355	34 380	58 735
1975	24 336	37 206	61 542
1976	24 534	41 417	65 951

2. Board

178. The Board of the Authority, placed under Minister for Agriculutre, is the forum at which major policy matters are decided. It is constituted in the following manner.

179. The Chairman is appointed by the Minister for Agriculture for a 2-year term. The Vice-Chairman is elected by and from the rest of the Board. The Permanent Secretary is from the Ministry of Agriculture. The Chairman of the Tea Board of Kenya holds a seat by virtue of his office, as does the General Manager of KTDA. A representative of the Commonwealth Development Corporation sits on the Board as a Lender.

180. Seven grower members are elected by the small tea growers through grass-root elections as growers' representatives on the Board. One or two other persons may be appointed to the Board by such as the Minister for Agriculture.

3. Departments

181. Under the control, supervision and co-ordination of its General Manager, KTDA has 7 departments, that implement Board policies.

(a) Technical (Agricultural) Department;
(b) Leaf Collection Department;
(c) Manufacturing Department;
(d) Engineering Department;
(e) Marketing Department;
(f) Accounts Department;
(g) Company Secretarial (Corporate) Department

182. The first five Departments are operational departments. The other two are service departments.

4. Subsidiary company boards

183. Every KTDA tea factory is a separate legal entity registered under the provisions of the Companies Act (Cap.486) of the Laws of Kenya.

184. KTDA has the right to and invariably does subscribe for shares in the capital of every such company. The remaining capital is subscribed for by the growers who deliver leaf to the factory.

185. Each company has a separate Board of Directors chaired by the General Manager of KTDA . One other Senior KTDA Officer sits on it as a Director. Representatives of the Permanent Secretary, Ministry of Agriculture and of the Commonwealth Development Corporation are also members. There is provision for a maximum of two growers to be directors they are chosen at the grass-roots level and by the District Tea Committee of smalll tea growers.

186. KTDA now has a total of 33 subsidiary tea factory companies responsible for the manufacture of its teas. The Authority buys leaf from the small growers, sells it to the tea factory companies which in turn manufacture and sell it and then pay KTDA which pays the growers. KTDA is managing agent to all the tea factory companies.

5. Subsidiary tea boards

187. Falling under the KTDA Board are, in order of seniority, the Provincial Tea Boards, the District Tea Boards, the Divisional Tea Boards and other smaller local tea bodies in every KTDA tea producing Province, District, Division and locality in the Republic of Kenya. KTDA staff sit on these Boards together with tea grower representatives elected at the grass-roots. Most of the issues relating to field operations for resolution at the Supreme KTDA Board emanate from these subsidiary Tea Boards, which are purely advisory.

188. As observed by the World Bank in recent report, this solid structure has resulted in and facilitated control of strategic resources, effective accountability system and effective incentives, features that are causative factors in KTDA's success.

189. KTDA's policy of autonomy and its structure, especially at the departmental level are in direct response to its need to acquire and master all operational phases of tea management, seed cultivation, tea husbandry, leaf handling and manufacturing to marketing, all of which were previously the exclusive domain of transnational corporations. KTDA's significance derives in great part from this.

G. Constraints

190. Though KTDA's achievements are substantial, the Corporation is faced with constraints that require serious consideration; the four major areas are discussed thereafter.

1. Operational costs

191. When KTDA was established, the cost of construction of one tea factory was about Kshs. 2 million. In 1975/76, the cost had increased to nearly Kshs. 9 million, and continued to rise to a present figure, per factory, well in excess of Kshs. 30 million.

192. Transportation costs have also augmented the variance in price per leaf carrier vehicles from 1974 to 1983 is as follows:

Year	Cost in Kshs.
1974	42 000
1975	162 000
1980	195 000
1981	229 000
1982	260 000
1983	290 000

193. The cost of a 50 kg. bag of NPK fertilizer used for growing tea was Ksh. 41.00 in 1975/1976 and rose to Ksh. 165.00 and 170.00 in 1981 and 1982 respectively. KTDA paid Ksh. 23 million for fertilizer imports in 1981, and Ksh 31 million in 1982.

194. This type of escalation in costs of production is incurred through procurement of inputs from manufacturing and trading transnational corporations. The Authority is not yet self reliant in certain lines of industry such as shipping or transport of made tea, and is thus left dependant on other corporations, especially the transnational corporations that are dominant in these areas of business in Kenya.

195. A striking case of drain of hard earned KTDA surplus is represented in shipping costs. Throughout its history, the Kenyan tea industry shipping requirements, including those of KTDA, had been served by British-controlled conference lines, a loose conglomeration of 10 shipping companies. They freighted tea for the shippers under a written annual agreement negotiated by the East African Tea Trade Association on behalf of all the tea producer shippers. A fundamental condition in the contract and one that was applied regularly by mere publication in the local press, was that the conference had an unfettered right to introduce currency, bunker, tarrif or any other cost adjustment factor on the agreed shipping rates at any time.

196. The conference lines used rises in cost of oil and other items to justify their constant rates increases. Negotiations between parties yielded no compromise. In 1980, KTDA finally refused to renew its contract, broke away from the arrangement and established a relationship with another shipping transnational corporation, Western European Container (WEC) Lines, which is under Dutch and Spanish control.

197. KTDA savings out of this action are described below:

Pier	Conference Lines	WEC Lines	Savings
Felixtone	1715	1460	255
Avonmouth	1715	1510	205
Dublin	1715	1600	115
Rotterdam	2245.45	1469	775.45
Humburg	2245.45	1900	345.45
Bremen	2245.45	1900	345.45
Antwerp	2245.45	1600	645.45

* The rates are in US$ and are for 20' 200 chests 10 tons containers. Source: Corporation Records.

198. In response to this decision, the Conference Lines sought to regain the contract by offering a drastic cut in freight rates to a level that was viewed by KTDA as unrealistic. In 1981, the Authority apportioned the contract betwe n WEC Lines and the Mediterranean shipping Lines, another European transnational shipping corporation under Italian control, further lowering its freight costs. Significantly, KTDA's new arrangement with WEC and Mediterranean shipping Lines provided flat rates, unlike those of the Conference Lines.

199. By opting for these new shipping lines, KTDA brought the Kenyan tea industry into the new containerization technology.

200. Interestingly, the transnational tea corporations in Kenya stayed clear of this struggle: given the common national roots of the transnational tea corporations in Kenya and the Conference Lines, the calculated TNC aloofness may be explained in terms of protectionist corporate kinship.

201. Nevertheless, the struggle resulted in a general drop in freight rates for the tea industry, a drop of benefit to the TNCs as well.

2. Borrowing

202. KTDA's development has been funded through loans from various sources, chief among which are Commonwealth Development Corporation, the World Bank, the European Investment Bank and OPEC.

203. Over the years, KTDA has borrowed huge sums of to fund its programmes. As of 30 June 1982, its unpaid debt balance stood at Ksh. 500 477 000. This level is expected to rise with more calls on the live and undrawn loans due to KTDA from these lenders.

204. Repayment of the loans whose varied interest rates have maintained a convention of vertical rise, is a burden. Recent developments in debt servicing sharply highlight this point. In 1981, the Kenya shilling was devalued twice, by a 5 per cent and then a 15 per cent rate. In terms of foreign currency designated loans, the first devaluation caused an upward revaluation of the due levels in the total sum of the equivalent of Ksh 44 million. The recent and latest 15 per cent devaluation occasioned another upward revaluation of the loans in the sum of Kshs. 37 million, bringing the total loss to KTDA Ksh. 81 million.

205. The loss, within a period of one year, represents an amount greater than the total loan from the European Investment Bank which was Kshs. 79.5 million and nearly double the total loan from OPEC.

3. Pending development

206. KTDA andother national Kenyan corporations have not yet embarked in programmes other than the primary stage of the world tea industry - seed cultivation agronomy and manufacture in bulk. The next phases have been left to the control of foreign transnational tea corporations operating in Kenya, with obvious loss of opportunities for investment for the national economy. KTDA limitations in this area are no doubt tied to loss of crucial earnings through reliance on transnational corporations and lack of financial accruals by default of investment in such vital new ventures as this stage offers.

4. Quality control

207. Ever since the establishment of KTDA, transnational tea corporations in Kenya have maintained and insisted that the Authority should pluck 2 leaves and a bud for maintenance of high quality and high prices, a standard KTDA has respected. Transnational tea corporations, on the other hand, pluck coarse, 3 or 4 leaves and a bud.

208. There is a possible theoretical reason for this double standard. The relationship of peasant household capital has been defined thus: "Where households are subject to quantity and quality controls over production, where labour is subject to supervision by capital, where the producer price is tantamount to a wage, then the household approximates a wage worker.

209. Another reason is that in some situations, it is more beneficial for capital to dominate agriculture by controlling conditions of reproduction of the small farmer rather than expropriating him. In the case of tea, capital is thus spared certain costs which it would have to bear if it were directly to organize production.

210. The smallholder, who underwrites his own and his family's overhead and KTDA's operational costs allows the capital used in purchasing or acquiring his production to lower the value of labour as a commodity below its real value. A good illustration is that despite the vast sums generated by KTDA, the average annual income of one individual KTDA smallholder is a Ksh. 200, a figure below the minimum statutory wage in Kenya.

211. Controlling the world tea trade, from packaging right up to consumer sales, transnational tea corporations use KTDA teas, produced at comparatively high costs, for blending with other lower cost teas of inferior quality to reap profits through trade. In so doing, the TNCs do not offset KTDA's high production costs through any subsidy. The cost underwriting is shouldered by the lenders, the Government and the smallholders.

212. This appears to be the only economic rationale to explain why the smallholder scheme, an agrarian project whose aim is direct competition with the trans-national tea corporations in Kenya was tolerated by these TNCs: Brook Bond in particular opposed the commencement of the smallholder project at first but subsequently changed its mind and encouraged it.

FOOTNOTES

Chapter IV

1. The KTDA Constitution as cited and subsequently amended from time to time.

2. Corporate Planning - KTDA Experience, paper presented before Heads of Parastatals, Kenya at a seminar in May 1981, Nairobi.

3. Summary of legal Agreements affecting and touching on Makaara, Tumbi, Chinga, Litein, Kiambu, Tegat, Kebirigo, Imenti and Chebut Tea Factory Companies Ltd. and Brooke Bond, James Finlay, Eastern Produce and George Williamson.

4. KTDA Internal Memos

5. H. Cowen, Capital and peasant Households and J. Banaji, Modes of Production in a materialistic concept of History-Mimeo, 1975.

6. H. Bernstein - Under-development and the Law of Value, a critique of Kay in B.A.P.E. No. 6, August, 1975.

CHAPTER V

KENYA TEA PACKERS (KETEPA)

A. Introduction

213. The preceding chapter gave an account of how KTDA, the economic organ of the smallholder and the statutory corporation of the Kenya Government representing national interests, challenged the strong position held by transnational corporations in the field of tea production in Kenya.

214. KTDA did not, however, confine its challenge to the area of production, but rather, extended it to the Kenyan home market, which had formally been the exclusive domain of TNCs and more specifically, Brooke Bond.

B. Break-up of the pool

215. During the inception and the subsequent growth of KTDA in the 1960s, the transnational tea corporations did not plan for the Authority to sit in the decision-making circles of the 'pool'. KTDA had always been represented by the Managing Agents and Secretaries to its subsidiary tea factory companies on this forum. For years, therefore, KTDA was ignorant of operational arrangements pertaining to the local marketing and distribution of tea. Its expressed wish in the early 1970s to attend meetings of the 'pool' was opposed on the basis that the Authority was already adequately represented. KTDA, however, maintained that it had the right to represent its own interest directly and not through proxies. Reluctantly, the transnational corporations acceded to the Authority's wish.

216. By the mid 1970s KTDA had become the leading corporation in Kenya in terms of acreage and intended to exceed the total out-put of transnational tea corporations by the 1980s.

217. By the close of 1976, in comparison between export and the local tea prices, the Kenyan producer including KTDA was losing an average of Ksh. 5.00 per every kg of tea sold through the local market. This was the main justifications for the Authority to impeach Brooke Bond's hold and control over the local marketing and distribution of tea.

218. KTDA maintained that it had more tea interests on the ground than any other local producer and would soon control higher production than all the transnational and other local corporations and producers in Kenya. If Brooke Bond, by virtue of size and strength in Kenya had earlier emerged as the decisive arm in the home market, it was only logical that KTDA should now replace it.

219. It was also held that, given the low returns from the proceeds of sales to the pool, KTDA would be failing in its duty to maximize the return to the small grower if it did not step in to determine returns in the local market.

220. Finally, being a statutory corporation of the Kenyan Government and therefore an indigenous corporation, KTDA felt that it had an inalienable right to run and manage Kenyan property now that it had the ability and the means to do so.

221. In its meeting of 25 November 1976, the KTDA Board gave its blessing to all its subsidiary Tea Factory Companies in production to withdraw from the pool. The companies served twelve notices to the pool of their intention to cease further deliveries of tea as of 31 December 1977. In view of KTDA's, action, other tea producers followed suit and issued termination notices withdrawing from the pool. The fate of the pool was thus sealed.

C. Negotiations for a new set-up

222. KTDA had succeeded in its objective of breaking up the pool, but was nevertheless very much aware of the necessity to supply local demand without fail. To insure that the needs of local consumers be met, the Board agreed to co-operate with other producers in an effort to supply tea for local consumption, a condition was that the pool be re-structured to give the Authority an effective say in deliberations and management of local distribution of tea.

223. Pursuant to the Board resolution, KTDA initiated negotiations with the other producers through the AFCOK and Brooke Bond in particular over the subject of re-organization of local tea distribution. A committee for the purpose was set-up by the pool.

224. It was proposed upon the break-up of the pool to create new organization charged with the responsibility of local distribution of tea. Brook Bond, which created obstacles to this during negotiations was to relinquish its management and control of local tea marketing and distribution to the new organization. KTDA, for its part, would have a strong voice in running the new organization.

225. Brooke Bond was to sell the property and assets it used in marketing and distributing tea. Its asking price, backed up by a professional valuation report, for the sale of its central-packing factory (CPF), amounted to a total of Kenya shillings thirty million (Ksh. 30 000 000.00). KTDA responded with a counter-valuation report from its Engineering Department and made an offer of Kenya Shillings eight million (Kshs. 8 000 000.00) only, on the grounds that Brooke Bond argued that this offer was too low. Finally, a global price of Kenya shillings seventeen and a half million (Ksh. 17 500 000.00) for the sale of the Central Packing Factory at Kericho was agreed upon in November 1977.

226. The Minister for Agriculture had by then issued an order directing KTDA to take charge of the local distribution of tea. Agreement was thus forged over the lines for negotiations by the parties.

D. Kenya Tea Packers Ltd.

227. Following successful conclusion of these negotiations, a new company was established by KTDA in the name of Kenya Tea Packers Limited. KETEPA was incorporated as a private liability company under the provisions of the Companies Act (Cap. 486) of the Laws of Kenya to be jointly owned by the Kenyan Tea Producers. It had an authorized share capital of Kenya Shillings one million (Ksh. 1 000 000.00 divided into 100 000 shares of Ksh 10.00 each and ranking pari passu to each other as regards dividend payments. The company had both share and loan capital structure.

228. In accordance with the provisions of the Articles of Association of the Company, shareholding was based on the area held by a producer as of 31 December 1977.

Loan capital contribution to the company was based on each producer's level of production of tea as of 3' December 197?.

229. The practical criterion used to determine the status of the producer in the company was ownership of factories, in order to ensure that the membership of the company did not exceed the ceiling of 50 prescribed in the Companies Act.

230. Using this formula, ?? tea producers were registered as Vetena members. Shares would be on the basis of o e per every hectare of tea held by each prospective member as of 31 December 197?. Contribution to the total loan capital by a member would be in the same proportion as the individual's production to the total amount of tea produced by all members as of 31 December 197?.

231. No c-lls on either loan or share capital contribution were made by the new company until it had carried out business operations for over one full financial year and generated surpluses. Calls for both share and loan capital contributions were made in March 1979.

232. On this arrangement, the membership and capital structure for the company was established as described in Table ??, below.

233. From a figurative analysis of the table, it is clear that KTDA, which had about two thirds of the tea acreage in Kenya as of 31 December 197?, held the same proportion of total shareholdings in the company or a controlling interest. KTDA also held the largest single debenture as a lender in the company though over-all, it contributed about one third of the loan capital, making sure that its bulk was met by the other producers who were mainly foreign companies in the plantation sector.

234. The same decisive control was established at the board Level.

235. The Board was constituted by nine directors, six of whom, according to the constitution of the company, had to come from and represent KTDA. The remaining three Directors were to come from and represent the plantation sector.

236. The company was the one to take over the entire local marketing and distribution of tea in Kenya from Brooke Bond, and therefore, would meet the global sale price of Kshs. 1?.5 million negotiated with Brooke Bond for its property. KTDA undertook to provide the necessary bridging finance to the full value demanded under this sale price until such a time that the young company had either had time to organize its capital call-ins or to build up sufficient funds. Upon the occurence of this event, KTDA's extended financial facility would be recalled and the company required and to make a reimbursement.1/

237. KTDA was appointed as the Managing Agents and Secretaries to the company. In this capacity it was entitled to a commission at the rate of 4 per cent of the gross value of all the tea packed and sold by the company throughout the country.

TABLE 22

Kenya Tea Packers Limited

Loan and Share Capital Call-in Schedule

Shareholders	1970 Made Tea Productions	Loan Capital Kshs.	Planted Area-Hectares	Share Capital At 10/- Per Share	Total Loan & Share Capital Kshs.
Kenya Tea Development Authority	27,973,393	5,398,100	46,938.36	468,380	5,866,380
Brooke Bond Liebig (K) Ltd.	18,182,693	3,514,830	7,032.04	70,320	3,585,150
African Highlands Produce & Co. Ltd.	12,436,472	2,609,280	5,108.59	51,080	2,660,360
Eastern Produce	1,827,011	353,170	908.59	9,080	362,250
Nandi Tea Estates	2,052,774	396,900	710.71	7,100	403,980
Kapsumbweliwa Factory Co. Ltd.	2,551,275	493,300	1,221.45	12,210	505,510
Sotik Tea Co. Ltd	3,250,022	628,250	1,187.14	11,870	640,120
Siret Tea Co. Ltd.	1,929,307	372,750	724.56	7,240	380,500
Nyanboni Tea Co. Ltd.	1,725,220	333,500	300.00	3,000	335,500
Kapchorua Tea Co. Ltd	1,389,395	268,550	352.43	3,520	272,070
Ngorongo Tea Factory Co. Ltd	1,363,961	344,330	568.56	6,680	351,010
Kariraua Estates Ltd	1,295,442	250,420	911.42	9,110	259,530
Kiptebe Ltd.	1,411,890	272,930	1,003.33	10,030	282,960
Sotik Highlands Tea Estate	1,297,079	250,730	473.19	4,730	255,460
Changoi Ltd	1,274,043	246,290	567.00	5,670	251,960
Kiptoimet Tea Co. Ltd.	832,620	161,140	314.00	3,140	164,280
Koimagot Tea Estates Ltd.	746,595	144,320	1,552.34	15,520	159,840
Tinderet Estates Ltd	774,543	149,720	446.00	4,460	154,180
East African Coffee Plantation Ltd.	1,516,941	293,220	1,214.00	12,140	305,360
Sibot Tea Facory Co. Ltd.	191,416	37,000	106.71	1,060	38,060
Kericho Ltd.	681,944	131,800	399.93	3,990	135,790
Kaisugu Ltd	655,953	126,800	293.00	2,930	129,730
Mau Forest Ltd.	661,310	127,840	486.59	4,860	132,700
Kibwari Tea Estates Ltd.	356,619	68,940	300.16	4,000	71,940
Kainosi Tea Estates	650,272	125,700	364.55	3,640	126,061
GRAND TOTAL	87,243,281	17,000,000	73,744.14	73,735	17,073,735

E. Compulsory delivery

238. Under the above arrangements, KTDA had finally secured the coveted position on the local market which Brooke Bond had held for 40 years.

239. There was however, one remaining problem. The tool used by KTDA to break-up the pool when under the control of Brooke Bond was to withdraw. Further use of this measure constituted a risk for KTDA.5/

240. Cognisant of the danger, KTDA through its stronginfluence in the Government finally secured the passage of appropriate legislation in the National Assembly to prevent this occurrence. 6/ Upon promulgation, the Bill amended the provisions of the Tea Act (Cap. 342) of the Laws of Kenya as follows:

(a) In Section 2, including the hitherto non-existent definition of the term "established agency" as meaning "Kenya Tea Packers Limited or such other body as the Minister may by notice in the Gazette, appoint," amongst the definitions of other words.

(b) In Section 6 (4) by raising the quorum of the Tea Board from 6 to "9" Members.

(c) In Section 25 (2) (b), by providing that in addition to his powers to make specific regulations pertaining to the protection and promotion of the tea industry in Kenya, the Minister shall have power to make regulations which provide for the "regulating and controlling the method packing and blending manufactured tea for sale for consumption in Kenya, including requiring holders of licenses and permits to supply manufactured tea to the established agency for packing and blending manufactured tea for sale." 7/

241. Under the powers thus vested in him by this new Amendment Act, the Minister for Agriculture in charge of administration of the law promulgated in a repeal of the Tea Regulations and under Legal Notice No. 240 of 1970 the Tea (Supply of Manufactured Tea) Regulations, 1970.

242. Under these rules, delivery by every producer to Kateps of the prescribed quota call-in at such times and in such containers as may be required by the company was made mandatory. Any violation of these rules was a criminal offence punishable by a maximum of Kshs. 5 000.00 or a jail term of 6 months or both. The amendments also made any illegal handling of tea a criminal offence punishable by 10 years imprisonment with or without corporal punishment.

F. Running of Kateps

243. On 21 January 1972, Kateps took over the blending packing and distribution of tea for local consumption. 8/ In effect, KTDA, by their Managing Agents and Secretaries to the Company, handled the take over. The Authority's Management took over the CPF, the Nairobi Depot and the Mombasa Depot and began to provide managerial services from its Headquarters in Nairobi. The sale Agreement under which the blending, packaging and distribution arrangements were acquired was executed, and KTDA thereafter disbursed to Brooke Bond the money due.

244. Following the take-over, KTDA carried out a thorough review of the system inherited from Brooke Bond with a view to streamlining it. This affected the following areas of operation, and is still in effect today.

1. Personnel

245. The KTDA Head-Office assumed policy and decisive control over every aspect of Ketepa's line of business. Every officer working in a managerial capacity for Brooke Bond was replaced by KTDA personnel. At the middle and lower cadre levels, the staff were taken over from Brooke Bond by the new company and their terms converted to KTDA terms.

2. Tea packing

(a) Delivery

246. As regards receipt of teas at the CPF from producers, the following applies.

247. The Ketepa sales room in Nairobi calls in teas based on market demand. Producers give details on their deliveries, including grade of tea, date of manufacture and net weight on a note made out in triplicate. The information is checked at the receiving bay where deliveries are weighed and recorded. Any discrepancies at this level are noted, and once necessary corrections to delivery notes are made and following counter-signature by the driver delivering the tea, the bags are stacked by grade, garden and factory. Samples of each tea are forwarded to Nairobi on a weekly basis.

(b) Blending

248. KTDA procedures for blending are carefully spelled out as follows.

249. The Nairobi sales room forwards blend sheets to Tea Stock Clerks. Each blend comprises 28 bags weighing a total of approximately 1260 kg. Actual blends are sorted through use of colour coded discs attached to individual bags which are then grouped together in blend stacks. Prior to blending, the teas are checked again for grade and weight against information on the blend sheet, and the total weight and date of a mixing are recorded. The mixing is then done in drums and identified on a "Mixing Cent Dorm" sheet which follows the tea to the packing room. The Blend Clerk records use of teas at the end of each day to keep a running balance of loose teas.

(c) Packing

250. A Senior Assistant Supervisor manages this procedure, insuring that checkers enter all quantitites packaged with indications of losses and gains. Packaged tea is then transferred into the packed stock warehouse and recorded on a daily transfer sheet. At the end of each day, teas are categorized by package, machine, blend, line and size.

(d) Warehouse - dispatch

251. In the warehouse, teas are stacked by type of packing and quality, with transfer-out notes detailing daily shipments to the Nairobi or Kericho warehouses. Upon receipt the dispatches are again checked and entered in daily stock sheets.

(c) Depot warehouses

252. Details of deliveries, which are thoroughly checked on arrival, are entered on a daily stock sheet and sales controlled through invoices signed by the agent or his representative. Payment for tea is by Banker's Cheque only. Sales are summarized on a daily basis and compared with remaining stock.

3. Tea distribution

253. The tea blended and packed at the CPF is dispatched to the Nairobi and the Mombasa depots for onward distribution throughout the country. The latter serve the Coast Province, the CPF, the Western and Nyanza Province and part of the Rift Valley Province while the Nairobi depot serves the rest of the country.

254. Distributors, agents or wholesalers appointed by KTDA purchase their respective quotas at a discount or rebate of 7 per cent of the full wholesale price; they enjoy a further transport allowance of 25 cents per carton for the first 15 kilometres and 1 cent for every additional 1 2/3 kilometres. It is the responsibility of the distributor to sell all his tea quota-allocation to the other wholesalers in his area of operation which wholesalers would in turn sell to the retailers.

255. At the time of take-over by KTDA, Brooke Bond was distributing tea throughout Kenya using a total of 53 duly appointed distributors or agents.

256. KTDA increased their number to a total of 164 covering the entire country and with monthly allocations of tea for sales as shown in Table 23.

257. The distributors' respective quota allocations depend on the population in their particular area. All distributors are appointed through a formal distribution agreement they enter into with Wetepa. All appointments of distributors by KTDA are notified to the Provincial and District Public Administration as well as the District Government Trade Office concerned.

4. Trade Marks

258. KTDA also did away with Brooke Bond's trade marks and introduced new marks of different design and nomenclature for the local market as follows:

Brooke Bond's Old Marks	Wetepa's New Marks
Gold Label	Safari
Green Label	Safari ya Kenya
Simba Chai	Karibu Chai

5. Shortages

259. In September 1972, KTDA's first year in marketing control, the local market began to experience tea shortages. In response, KTDA streamlined and further strengthened its tea distribution machinery, by up-dating demography figures for the

TABLE 23

Ketepa distributors

AREA	TOTAL NUMBER OF DISTRIBUTORS	TOTAL NUMBER OF CARTONS
A. NAIROBI AREA:	18	19,040
B. CENTRAL PROVINCE:	29	15,593
1. Kiambu District	10	5,113
2. Nyeri District	6	3,325
3. Nyandarua District	5	1,743
4. Murang'a District	4	3,627
5. Kirinyaga District	4	1,790
C. COAST PROVINCE:	11	8,725
1. Mombasa District	4	2,711
2. Tana River District	1	600
3. Taita-Taveta District	1	914
4. Kwale District	1	1,694
5. Kilifi District	1	2,516
6. Lamu District	1	300
D. EASTERN PROVINCE:	26	16,979
1. Meru District	9	4,958
2. Machakos District	6	5,769
3. Kitui District	4	2,906
4. Embu District	3	2,044
5. Isiolo District	2	492
6. Marsabit District	2	1,000
E. NORTH EASTERN PROVINCE:		
1. Garissa District	4	920
2. Mandera District	3	1,106
3. Wajir District	2	1,000
F. RIFT VALLEY PROVINCE:	47	23,488
1. Kajiando District	6	1,320
2. Kericho District	4	4,714
3. Nakuru District	4	3,594
4. Baringo District	4	1,645
5. Trans-Nzoia District	3	2,252
6. Nandi District	3	716
7. Samburu District	3	967

8.	Narok District	3	967
9.	Uasin Gishu District	2	2,564
10.	Laikipia District	2	1,255
11.	West Pokot District	1	663
12.	Elgeyo Marakwet District	1	1,295
G.	NYANZA PROVINCE:	5	15,741
1.	Kisumu District	2	3,275
2.	South Nyanza District	1	4,935
3.	Siaya District	1	2,135
4.	Kisii District	1	5,593
H.	WESTERN PROVINCE:	9	19,292
1.	Bungoma District	4	2,494
2.	Busia District	3	1,429
3.	Kakamega District	2	6,369

N.B.

One carton contains 10 kgs of tea.

Source: Confidential Company Schedules.

country and increasing the number of its distributors from 52 to 92 then to 127 by the end of the year. It strengthened monitoring measures by requiring that trader's receipts be submitted to the Public Administrator, and by maintaining its call-in quota of 13.4 per cent of each producer's quarterly production.

260. Despite this, shortages persisted. From October through December, KTDA's management of local distribution came under heavy attack in the press. Reacting to this the Ketepa Board appointed a committee to investigate the matter.

261. The findings, submitted in February 1979, exonerated KTDA and the producers for any blame in the shortages, and attributed the problem to smuggling. The Committee therefore did not recommend increasing the call in quota as a solution, as such a move would benefit smugglers. KTDA shared the Ketepa Board views, and used a similar line in a strongly worded statement in the press.

H. Dissolution

262. At the end of 1978, the Kenya government directed KTDA to raise the call-in quota from 13.4 to 15 per cent; despite their conviction that such a move would be harmful, KTDA and Ketepa complied. In another directive, which was however not enforced, the Office of the President became sole distributor of tea in the North Eastern province, the region that suffered most from the shortages.

263. From February to April 1979 additional directives followed, removing KTDA responsibility in Ketepa altogether. The General Manager of KTDA was first compelled to resign from the Ketepa Board, to be replaced by the Chairman of the Tea Board of Kenya. The managing agency relationship between KTDA and Ketepa was terminated. Although Ketepa wished to retain, on a temporary basis, KTDA's accounting and secretarial services 9/, the Government appointed instead a firm of accountants to act in this capacity until such a time as the company could independently handle these areas of business operations.

264. At a March 1979 meeting, the Ketepa Board decided that it would be able to finance its own operations. Accordingly, Ketepa funds were used to repay KTDA, particularly for the bridging monies used in purchasing Brooke Bond's interests in the local tea marketing system. The Authority handed the control and management of the CTF and the distribution depots in Nairobi and Mombasa over to Ketepa.

I. KTDA's record in Ketepa

265. Audited accounts reveal that for the period during which KTDA was its Managing Agents and Secretaries, the Company was able to receive and pack 11 605 269 kg. of tea, which represents 96.7 per cent of the CTF's processing capacity. This surpassed the 1977 level of 10 957 751 kgs. by nearly one million kgs.

266. Sales for the year amounted to 10 509 439 kg; in comparison to the 1977 turnover of 9 539 251 kg under Authority management Ketepa exceeded its mark for the previous year by well over one million kg. representing a sales increase of 11 per cent.

267. Sales by the Authority on behalf of the Company fetched a total of Kshs. 116 602 700. KTDA was able to make an interim payment to every producer at the rate of Kshs. 5/95 per kg. for a total of Kshs. 57,990,217. Over and above the interim payment, KTDA had been able to build up surplus funds from sale actuals amounting to Kshs. 22 020 854/=, available for distribution to producers based on deliveries.

268. Ketepa declared the surplus as second payment at the rate of Kshs. 1/20 and still held a retention fund of Kshs. 96 000/= to be carried forward after all payments out of the surplus.

269. It is noteworthy that under the Authority's Management Ketepa made enough returns to make a net payment of Kshs. 7/95 over and above the net payment of Kshs. 6/94 in 1977, at a time when Brooke Bond paid by Kshs. 1/31 per every kg. to the producers. This was a record achievement for 40 years.

270. KTDA also invested surplus funds for the Company and was able to earn Kshs. 966,377/= as interest, a figure that permitted Ketepa to meet nearly all its interest payable without having to draw from the surplus due for distribution to producers.

271. Given speed of the take-over and KTDA's absence of experience in the local packing and distribution of tea, Ketepa's record accomplishment in 1978 was a sign of great success for the Authority. It should be remembered that this was achieved at a fixed management commission of 4 per cent of gross sales Kshs. 3,534,809/= in 1978 as opposed to the previous 7½ per cent commission with provisio for escalation payable to Brooke Bond under the pool. 10/

J. Cost and price structure

272. Consumer tea prices for Ketepa are fixed and thus controlled. From 1972 to 1982, there had been no real increase in tea prices to the consumer except adjustments due to sales taxes. This static price structure is shown in Table 24.

273. At the same time, 1 kg of tea costs the producer Kshs. 12.55, about Kshs. 2.65 as seen in table 25 for 1979.

274. Based on 1979 figures, the return to the producer from Ketepa is Kshs. 9.52; given his cost of Kshs. 12.55 cost, the producer has therefore been protecting the consumer through an unusually heavy subsidy, that reaches higher proportions when local returns are compared to export prices which averaged Kshs. 13.06 and 14.45 in 1979 and 1980 respectively.

275. When domestic producer prices were at par with export prices, Kenya's per capita consumption ranged between 0.50 and 0.59 kg. These figures, however, have increased dramatically to 0.86 kg while the gap between domest and export prices has reached unrealistic levels for a young consumer country.

TABLE 24

Retail Prices

BRAND	PACK	SHS/PER PACKET EXISTING RETAIL PRICE
Safari Pure Tea	20 x 500g	8.35
Fahari Ya Kenya	20 x 500g	7.45
Fahari Ya Kenya	40 x 250g	3.75
Fahari Ya Kenya	100 x 100g	1.50
Fahari Ya Kenya	200 x 50g	.75
Fahari Ya Kenya	Parcel of 50x50 cts.(1.71 kg.)	.50
Karibu Chai	20 x 500g	6.20
Karibu Chai	40 x 250g	3.10
Karibu Chai	100 x 100g	1.25
Karibu Chai	200 x 50g	.60
Karibu Chai	Parcel of 50x50	.50
Siftings	20 x 500g	6.15
Siftings	100 x 100g	1.25
Tea Bags Unit	20 Boxes x 50	3.35
Tea Bags Catering Pack	10 bags x 100	46.00

TABLE 25

Producer Cost Statement

			shs./kg.
1.01	COST TO THE PRODUCER - 1979		
	Direct Costs		6,46
	Direct Overheads		1,39
	Depreciation		0.24
	Other Overheads		1.46
	TOTAL		10.05
	Estimated effect of increase in petrol, other fuels and wages since October, 1980 - 25%		2.50
			12.55
	Return from Ketepa - 1979		
	Initial monthly payment	5.85	
	Second Payment for the year to 31.12.79	2.67	8.52
	Return from Ketepa below producers cost by		4.03
2.00	PACKING EXPENSES INCURRED BY KETEPA - 1979		
	Direct Costs		1.07
	Factory Overheads		.16
	Other Overheads		.87
			2.10
	TOTAL		
	Estimated effect of increase in petrol, other fuels and wages since October, 1980 - 25%		.55
			2.65

276. Deliveries of tea for domestic consumption have increased over the years as shown in table 26.

Table 26

Domestic deliveries of tea

Year	Sales in Kg.
1969	6,776,364
1970	6,660,305
1971	7,394,000 a/
1972	8,030,470
1973	8,213,210
1974	9,048,145
1975	7,131,237
1976	8,030,220
1977	8,852,361
1978	10,500,000
1979	11,634,000
1980	12,640,000

a/ Deliveries and sales are high until 1971 because Tanzania and Uganda were still members of the pool.

277. Figures for the latter years appear not to represent genuine consumption, but harbour an element of illicit trade in local tea with Kenya's neighbours whose tea prices are, on the average, 40 per cent higher than in Kenya.

278. On the 1980 consumption level, the projected subsidy by or loss to the producers was Kshs. 52 200 000.00. In addition, the burden of underwriting Ketepa's establishment and operating costs falls on the producers as well.

279. On these premises, through the Tea Board, tea estates, producers have consistently applied pressure on the Government to increase local prices for tea, and more specifically petitioned that an increase of 52.2 per cent be granted to Ketepa. This would enable the company to make a net return per kilogram of Kshs. 15.55 which would cover producer costs of Kshs. 12.65 and still offer a surplus.

280. In December 1981, the Government partially conceded to the petition and increased local prices for tea by an average of 20 per cent. The producers are not yet satisfied and at the time of writing, were regrouping to mount another case for a price hike.

FOOTNOTES

Chapter V

1. Confirmed Minutes of the Meeting of the Board of the Kenya Tea Development Authority held in the K.T.D.A. Board-room, Nairobi on 25 November 1976.

2. Confirmed Minutes of the Meeting of the Board of the Kenya Tea Development Authority held in the KTDA Board-room, Nairobi on 10 March 1977.

3. See the Minutes of the Meeting of the Board of the Kenya Tea Development held in the KTDA Board Room on 21 June 1977 and the Minutes of the Working Committee on the proposed Company to take-over local tea distribution.

4. See the Returns on Kenya Tea Packers Ltd, filed in Company Registry, State Law Office, Nairobi.

5. In a discussion between one of the Directors of Brooke Bond and KTDA on the day of actual take-over of the CTS, the probability of use of this loop-hole by the plantation sector against the KTDA was raised as a veiled threat.

6. Statute Law (miscellaneous Amendments) Bill, 1978, published in the Kenya gazette, Vol. LXXX No. 40 under Kenya gazette supplement No. 70 (Bills No.14) of the Kenya gazette Supplement Bills, 1978.

7. Ibid.

8. Confirmed Minutes of the Meeting of the Board of the Kenya Tea Development Authority, held in the KTDA Board-room, Nairobi on Thursday the 16th of February, 1978.

9. Confirmed Minutes of the Meeting of the Board of Directors of Kenya Tea Packers Ltd. held in the Registered Office of the Company on 26th March, 1979.

10. The audited Accounts of Kenya Tea Packers Ltd. for the financial year, 1978.

CHAPTER VI

Tea Marketing

A. Introduction

281. This chapter examines tea marketing and highlights the various operatives and their relationships within the world tea market in order to analyse disparities in control and accumulation of economic gains between the transnational corporations in Kenya and the Government or its agent tea corporations. It also looks at the main tea associations that assist the tea industry by promoting their respective interests.

B. Tea grades

282. Broadly speaking and using KTDA as a model, Kenyan made tea can be manufactured under eight specific grades; these can be classified under three main categories in the following manner;

a) Main or Primary Grades

BP1
PF1
PD
D1

b) Secondary Grades

BP
F1

c) Off-Grades

DUST

B stands for Broken, P for Pekkie, F for Fannings, D for Dust and I for digit one. BP1 for example is a short form for Broken Pekkie one while PD will stand for Pekkie Dusts. The names are of Chinese linguistic origins. BP1 has the largest or boldest particles followed by PF1, then PD and lastly D1 which as the name suggests is really a dust grade.

283. Bold tea grades are good for large and loose packets while finder grades are suitable for tea bags. In addition, high grades command higher prices than secondary or off-grades. This is the reason why the UK which has a heavy tea bag consumption, has about 5 per cent of its entire tea trade pegged to PD and D1.

284. KTDA for example, a producer of very high quality teas, has between 85-90 per cent of its entire production in primary grades. Between 10-15 per cent of this production falls under the secondary grades while the rest is in form of off-grades.

285. Transnational corporations, producers of lower quality teas, have lesser quantities in the top grades and accordingly more volume in the secondary and off grades than KTDA. The range of their grades may in some cases be also less: in addition, production and extent of this range depends on , and differs between, factories.

C. Tea market: auctions

286. Tea is sold by grade in the major outlets of the world market, namely, the ten auctions. The Mombasa and the London Tea Auctions are the most important ones for Kenya teas.

1. The mechanics of sale

287. Using Kenya as an example, when producer factories deliver made tea for auction, the product must be in the warehouse before it can qualify for inclusion in the auction catalogue. Printing must take place at least 3 weeks prior to the auction day. Within that period, the tea will be sampled: a sample from each lot for sale (called an invoice) will be tasted and a valuation report given to the trade, the producers and the buyers within the 3 week period. Each invoice will generally contain an average range of 20-60 chests or 1 000-3 000 kg. of tea. In sampling, drawing is limited to a maximum of 2 kg for each invoice.

288. On auction day, buyers bid for the teas. Tea auctions operate on the commercial principle of sale to the highest bidder. Tea brokers who broke for both producers and buyers conduct the actual auctions. They are responsible for catalogue printing, tea sampling, tea tasting and valuation.

2. Costs

289. The cost of printing per invoice is Kshs. 25/- in the Mombasa Auction and the equivalent of Kshs. 150 in the London Auction, and is made out to the broker by the producer. Brokers also charge a commission the proceeds of gross sales of all teas passing through their hands at the rate of 1 per cent from the producer and ½ per cent from the buyer for the Mombasa Auction, and ¼ per cent and ¼ per cent in the same order for the London Auction. The heavier burden of brokerage costs is therefore borne by the producer. The bought teas are then consigned to the buyers.

290. At the Mombasa Auction, payment is effected within 10 working days from the auction date. The period between completion of a given transaction and actual receipt of money is therefore about one month for Kenyan producers. Within that period, tea will have left the warehouse. Consequently, the current average warehousing charge for the Mombasa Auction teas is about 10 cents per kg.

291. As for the London Auction, actual monetary receipt for Kenyan producers takes about 4 months. After the usual 3 week printing period during which tea is stored in the London warehouse, at their own discretion buyers often leave teas uncollected for up to 7 weeks on the account of the producer or seller.

292. As a result the average cost of funding offerings to the London Auction is higher than in the Mombasa Auction by about Kshs. 5 per kg. of tea on offer.

3. Buyers

293. Buyers in auctions will purchase either as trading corporations for re-sale, as buying agents on behalf of packers or as packers.

294. The principal buyers in the Mombasa Auction are the following, in order of observed buying prominence:

- Brooke Bond Mombasa
- James Finlay & Company
- Tea Press (GB) Ltd.,
- East Africa Tea Exporters
- Lipton Ltd.
- Stensand (Africa) Ltd.,
- E.J. Love & Co. Ltd.

295. Brooke Bond Mombasa is the largest accounting for nearly 20 per cent of the Mombasa offerings. A full list of all the active buyers in the Mombasa Auction as of 30 June 1972 and their performance during the first half of the year are shown in Table 27.

296. Principal buyers in the London Auction, in order of performance, are Brooke Bond, Lyons Tetley Ltd., Co-operative Wholesalers Ltd. and Typhoo Tea. They are all packers of tea as well for the U.K. Market and in some cases, like Brooke Bond, for India.

297. Prominent buyers in the Mombasa Auction such as Liptons and James Finlay are also traders in the London Auction. Indeed Liptons, which is currently the largest tea trading transnational corporation in the world in terms of turnover (not production), has operations spanning the Americas, Europe, Africa, Asia and Australia. Liptons itself is part of the Unilever Empire, a leading food and beverage transnational corporation which also owns the East African Industries, a producer of foods and other products in Kenya.

298. Brooke Bond buy in the London Auction through the Caltex Company and pack under their own traditional name. Stensand Ltd., a powerful buyer in the Mombasa Auction, is a subsidiary of Lyons Tetley Ltd., the other giant in the London Auction.

4. Brokers

299. In the Mombasa Auction, there are 3 brokers who handle on average the following volume:

African Tea Brokers	-	45%
Coubrok Ltd.	-	30%
Tea Brokers East Africa Ltd.	-	25%

Table 27

Tea Purchases in Mombasa

January to June 1982

	KENYA KGS.	RWANDA KGS.	BURUNDI KGS.	UGANDA KGS.	ZAIRE KGS.	TOTALS KGS.
Van Rees (GB) Limited	2,740,427	9,362	9,260	-	66,359	2,824,914
E.A. Tea Exporters Limited	2,718,284	32,172	15,290	6,904	44,115	2,816,765
Brooke Bond Mombasa	2,356,339	189,542	125,545	61,913	81,651	2,814,990
James Finlay & Company Limited	1,587,660	22,350	28,867	8,971	22,883	1,670,731
Lipton Limited	1,096,904	62,714	84,639	5,948	25,666	1,281,871
D.J. Lowe & Company Limited	1,180,608	89,167	6,288	-	-	1,276,063
Stansand (Africa)Limited	933,552	89,112	16,238	5,228	23,962	1,068,092
Berisford Kenya Limited	801,709	30,391	12,053	17,792	8,856	870,801
Sunty Enterprises	716,081	47,213	696	2,268	-	766,258
H.J. Clarke	637,338	19,152	20,518	699	-	677,707
James Noble Tea Limited	447,002	6,715	4,400	-	12,484	470,601
Phillips Harrisons & Crosfield	305,966	16,617	24,266	3,431	-	350,279
Chai Exports (Kenya) Limited	225,736	12,295	5,272	14,081	-	257,384
Manyo Limited	220,692	10,625	895	-	11,860	244,072
Nyahururu Food Products	155,572	17,297	7,897	2,600	26,841	210,207
Seyffert & Company	162,316	-	-	-	-	162,316
Vista Limited	150,787	2,556	12,028	-	-	165,371
Juja Coffee Exporters	147,086	4,104	-	-	-	151,189
Valimchamed Haji Waljee	115,077	15,691	3,396	-	-	134,166
Hussein & Company	24,090	33,812	5,735	-	9,284	72,921
Alibhai Ramji	46,281	9,257	2,188	5,102	-	62,828
Thaku Exporters	56,039	2,526	-	-	-	58,565
Big (Tea) Limited	37,369	-	400	-	18,825	56,594
El-Amir	29,390	16,913	3,137	550	-	49,990
Esco (K) Limited	46,688	-	-	-	-	46,688
Chai Limited	19,248	-	-	-	-	19,248
Contea Limited	12,826	-	-	-	-	12,826
Uneximp Limited	10,740	-	-	-	-	10,740
Gullied Kenya Industries	3,338	-	-	-	-	3,338
Samar Inter-Agencies	1,348	-	-	-	-	1,348
TOTALS	16,986,492	745,009	389,009	135,487	351,792	18,608,869

Source: East African Tea Trade Association.

300. Because of its size, the London Auction has many more brokers than the Mombasa Auction. The following are its main brokers:

- Thompson Lloyd & Ewart
- Wilson Gaither
- Geo White and Haines & Company.
- [illegible] are handled by these brokers

301. Haines & Co. is a subsidiary of Brooke Bond. Thompson Lloyd and Ewart is owned and run by the Kenyan representative in the U.K. Tea Council, the body responsible for promotion of Kenyan teas in the U.K. This firm, the largest in the London Auction, reportedly has interest in the Kenyan tea broking firm of Combrok; the latter is mainly owned by Kenyans with strong links in the tea industry. Combrok is the youngest firm in the Kenyan tea industry, having commenced brokerage as recently as in the 1970. A.L. Brokers Ltd. is the oldest tea broking firm in East Africa. It was started as a subsidiary of C.J. Valentine, the only coffee Auctioneer in Kenya. Tea Brokers E.A. Ltd. has a European and local African partnership reportedly including business connections with high-level Kenyan leaders.

302. Brokerage for [illegible] teas in the Mombasa Auction is handled by the following three firms in this order:

Brokers	Factories Handled
African Tea Brokers	12
Combrok	11
Tea Brokers (E.A.)	10

303. It is estimated that annual profits of about Kshs. 2 million accrue from this volume of business in one business year.

304. In addition to their direct involvement in the tea trade, transnational tea corporations are active in other incidental areas. Brooke Bond has business interest in warehousing, as, reportedly, does Thompson Lloyd & Ewart.

5. Off-shore auctions

305. The introduction of containers in the shipping industry has given rise to a new development in tea marketing, the so called "shore auctions" where tea is sold when still on the high seas. Samples of tea are drawn prior to loading in containers, distributed to the trade, valued and catalogued in the London Auction. On Auction day, the tea is offered for bids and auctioned while it is still at sea, in the form of container consignments.

306. This new system has just started and has yet to catch up with the established trade practice. It is now in operation only in the London Auction. Though it does not appear to offer significant advantages to the trade, it does represent a revolutionary diversion from tea trade orthodoxy.

307. One apparent short-coming of the system, however is that the bid at the auction is a flat rate: a container, which is the unit for a quote, will hold about 300 chests and qualify for several invoices which cannot be catalogued separately. The result is a general price for teas of diverse quality. As the takings must be in lots of containers, small buyers without adequate financial resources to buy a full container load are excluded from purchases.

C. Auction activity

308. Table 28 gives the latest price performance tabulation for KTDA tea factories in the Mombasa and London Auctions. This is contrasted with the price performance in the world auction in Tables 29 and 30. In addition to London and Mombasa, there are tea auctions, inter alia, in Calcutta, Gauhati, Siliguri, Cochin, Coonoor, Chittagong, Colombo and of late Singapore. For quantitites sold through the Auctions, see Tables 31 and 32.

D. Private treaty

309. Another outlet for tea is through treaty or contract, which is also called private treaty or sales. Under this system, tea is sold to the buyer by the producer either directly or through a middle-man.

310. KTDA's experience, since it is not directly engaged in tea trading, brokerage, buying, selling or packing, is that tea packers prefer buying through middle-men who represent established tea trading companies. At times, and especially outside the East African tea trade, broking firms will play this role for producers.

311. This situation forces the producer to appoint middle-men as selling agents at a commission or as nominated buyers on a profit margin basis. The commission for the selling agents is on fixed basis and is generally between 1- 2 per cent of gross sales. Profit margins depend on the trading activity of the buying concerns.

312. The following have been appointed agents and/or buyers through private treaty for KTDA.[2/]

United Kingdom

Standard (London) Ltd.
Thompson Lloyd and Ewart
Direct Tea Supplies Limited
Overseas Tea Marketing Limited
Mitchell Cotts
Wilson Smither

European Continent

Kolff & Witkamp
Elink Schuurman

United States of America

Kentea Limited
Walker Tea Corporation
James Finlay
James Fyfe
Tea Importers
H.P. Thompson

Ireland

Fitzpatrick

Ireland

Pitmpatuie

312. Some of these firms also appear in auctions either as brokers or packers. Given their nature, it is unlikely that transnational tea corporations would have to need to rely on any of this type of arrangement in the traditional markets under consideration.

314. Through private treaty, Kenya has sold tea in the manner shown in table 33. However, KTDA only sells between 15-20 per cent of its product through private treaty.

[illegible] Tea associations and international organizations

315. The following are some of the tea associations that have a strong influence on the Kenyan tea industry.

1. The Tea Board

316. The Tea Board of Kenya was established in 1950 under the Provisions of the Tea Act, (Cap. 343) of the Laws of Kenya. It is charged with the regulatory responsibility over the entire Kenya industry. More specifically, it licenses tea planting by issuing licences to growers authorizing them to plant. This applies to transnational tea corporations and other persons or firms wishing to plant tea.

317. The Tea Board also licenses the factories that manufacture tea and issues permits for the handling of tea in transit or under transportation as required under the law. It is responsible for meeting the expenditure towards tea promotion in 1976, 1977 and 1978 it contributed towards generic tea promotion campaigns conducted by the Tea Councils of the United Kingdom, the USA and Canada as shown below.

Country	Years		
	1976	1977	1978
United Kingdom	120,132	54,000	9,956
U.S.A.	20,514	22,500	10,000
Canada	25,301	23,741	22,222
	165,927	100,241	42,178

All figures in £s.
Source: Tea Board Annual Reports

318. In its licensing function, the Board obtains data on planted acreage and figures on production both crop and manufactured tea from the Tea Industry as well as on exports from the Government statistical sources. In this capacity, it therefore operates as a pool for basic and good data from the tea industry

TABLE 28

Highest net prices on ex-warehouse Mombasa basis - date [illegible]

	Londo Auction				Mombasa Auction			
FACTORY	BPI	PFI	PD	DI	BPI	PFI	PD	DI
Bagati	-	24.25	24.15	-	-	25.25	25.35	-
Kambaa	-	-	-	-	25.45	26.00	26.55	23.75
Kanyenyaini	-	-	-	-	24.95	25.85	25.55	23.75
Thumaita	-	24.65	24.65	-	25.35	26.35	25.75	-
Githongo	-	24.65	24.65	-	25.35	26.75	26.75	24.65
Chinga	-	23.05	24.65	-	-	26.25	-	-
Mataara	-	23.85	24.05	-	24.75	25.65	25.25	-
Ikumbi	-	24.25	24.65	-	26.25	26.45	25.75	24.55
Githambo	-	23.45	22.85	-	24.95	25.35	-	23.65
Kangaita	-	24.05	-	-	25.75	25.45	-	24.25
Gathuthi	-	24.25	24.55	-	25.05	25.75	25.65	23.05
Njunu	-	-	-	-	27.40	-	-	-
Kimunye	-	-	-	-	24.75	25.75	25.25	23.95
Mungania	-	25.05	25.30	-	26.35	27.60	26.55	24.75
Theta	-	-	-	-	-	26.55	25.75	-
Gatunguru	-	24.45	24.25	-	-	-	-	-
Irieni	-	23.45	23.05	-	24.35	26.25	25.25	24.55
Imenti	-	-	-	-	-	26.15	25.75	24.25
Makomboki	-	-	-	-	25.05	26.35	26.35	24.55
Ndima	-	24.45	24.45	-	-	-	26.15	23.45
Nyansiongo	-	-	-	-	24.55	-	-	-
Kaakeros	-	-	-	-	-	-	-	-
Kiamokama	-	-	-	-	-	24.95	24.65	22.95
Litein	-	-	-	-	24.95	-	-	-
Nyankoba	-	-	-	-	-	-	-	22.25
Nyamache	-	-	-	-	-	26.05	-	-
Kapset	-	22.10	-	-	24.45	24.45	23.85	22.95
Sanganyi	-	-	-	-	24.55	24.45	24.25	21.80
Kebirigo	-	-	-	-	-	-	-	-
Tegat	-	-	-	-	24.95	25.35	24.45	22.75
Chebut	-	-	-	-	-	24.95	-	22.95
Tombe	-	-	-	-	-	24.75	25.25	22.50

TABLE 29

Quantities of tea sold at London and European Auctions.

In metric tons. Calendar Years.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
LONDON *(a)*:												
North India: Excise Zone	61	67	–	2	5	26	73	21	12	42	22	27
" "	5,154	9,945	6,610	3,765	4,029	5,199	5,694	5,152	4,052	3,008	3,778	2,711
" "	–	7	–	–	–	20	17	–	13‡	9†	–	–
" "	25,067	43,054	32,843	32,390	29,247	33,500	28,752	28,860	24,087	23,464	24,719	22,599
Total N. India ...	30,282	53,074	39,453	36,157	33,281	38,746	34,536	34,032	28,164	26,523	28,519	25,337
South India: Excise Zone	644	384	794	687	426	626	637	877	340	181	525	234
" "	1,536	1,378	507	336	773	915	694	990	130	198	458	311
" "	206	122	79	26	382	519	110	144	30	55	96	79
Total S. India ...	2,387	1,884	1,380	1,049	1,581	2,060	1,441	2,019	500	434	1,078	624
Total All India ...	32,669	54,958	40,833	37,206	34,862	40,806	35,977	36,051	28,664	26,957	29,598	25,961
Bangladesh			69	1,941	799	1,890	2,114	2,383	2,511	1,772	2,137	2,007
Ceylon / Sri Lanka: High	22,108	21,907	14,195	12,901	12,686	12,313	8,688	8,560	8,950	6,189	7,083	6,471
Medium	12,889	11,254	8,094	7,354	7,272	6,297	3,707	4,330	4,290	3,924	4,473	3,828
Low	1,124	1,526	1,026	993	690	716	275	331	316	423	90	13
Total Sri Lanka	36,122	34,687	23,315	21,247	20,648	19,326	12,671	13,222	13,557	10,536	11,647	10,312
Burundi					188	715	630	801	604	780	431	747
Cameroon	177	263	120	–	16	–	83	111	36	56	–	–
Kenya	15,132	12,743	20,517	21,219	14,371	14,771	15,246	20,359	23,583	27,716	22,677	22,402
Madagascar	–	–	–	–	–	–	–	–	–	–	34	139
Malawi	6,979	5,834	7,318	7,399	6,596	7,069	8,490	7,877	10,392	12,678	11,231	8,322
Mauritius	878	407	650	714	268	159	206	159	723	3,188	1,947	1,573
Mozambique	6,082	7,122	7,521	7,874	6,008	3,838	4,762	4,358	3,315	4,000	5,061	2,307
Reunion	25	10	–	–	–	–	–	–	–	–	–	–
Rwanda	79	550	1,139	505	938	2,081	1,444	2,002	1,949	1,483	1,583	2,525
Tanzania	4,845	4,699	5,555	6,325	3,346	4,110	3,832	6,382	7,713	8,786	6,714	4,978
Uganda	3,213	3,625	4,962	2,337	2,007	1,981	2,204	1,251	–	–	–	–
Zaire	218	247	266	171	200	400	234	249	173	32	17	–
Zimbabwe	–	–	–	–	–	–	–	–	–	–	730	917
Total Africa ...	39,629	35,500	48,049	46,544	34,027	35,123	37,133	43,549	48,486	58,718	50,424	43,911
Malaya	287	148	14	33	–	–	–	–	–	–	–	–
Nepal	–	–	–	10	–	–	–	–	–	–	–	–
Viet-Nam	53	11	14	235	274	178	–	–	–	–	–	–
Papua, New Guinea	444	394	383	620	1,124	1,365	1,360	1,580	2,094	1,773	1,008	75
Argentina	18	26	–	–	66	–	–	77	131	77	–	–
Brazil	–	–	–	–	36	9	61	31	148	291	346	394
Ecuador	–	–	–	–	–	–	53	11	134	5	–	–
Total All Tea ...	109,221	125,723	112,676	107,837	91,037	98,698	89,368	96,904	95,725	100,129	95,160	82,659
ANTWERP:												
Indonesia: Offered ...	(1,367)	(1,635)	–	–	–	–	–	–	–	–	–	–
Sold	344	532	–	–	–	–	–	–	–	–	–	–

Source: International Tea Committee

TABLE 30

Annual average prices of tea sold at auctions in producing countries.

Including Excise Duty. In rupees per kg.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
	Rs.	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*	*Rs.*
CALCUTTA												
Leaf:												
Assam	7.36	7.47	7.13	7.27	11.21	12.11	12.27	17.60	14.14	15.24	15.67	15.39
Cachar	5.61	6.01	5.40	5.13	7.49	9.15	10.24	14.99	11.90	10.98	11.95	11.59
Darjeeling	12.68	12.10	12.60	13.94	17.40	18.13	17.44	27.12	22.47	27.08	28.37	26.38
Dooars	6.03	6.25	6.03	5.92	8.79	10.11	10.96	15.13	12.32	12.11	12.83	13.26
Terai	5.95	6.27	5.85	5.82	8.69	10.09	10.75	15.26	11.87	11.45	12.69	12.68
All Districts	7.43	7.52	7.28	7.45	11.03	11.96	12.34	17.72	14.39	15.68	16.11	15.66
Dust:												
Assam	6.57	6.88	6.69	6.57	8.70	10.21	11.54	14.53	13.28	12.50	12.68	14.13
Cachar	5.48	5.86	5.23	5.07	7.28	8.82	10.53	13.87	11.17	7.79	10.78	11.39
Darjeeling				6.86	8.97	10.49	11.51	14.74	12.85	12.46	12.62	14.07
Dooars	5.83	6.05	5.64	5.64	8.05	9.44	10.94	14.11	12.12	10.10	10.96	12.82
Terai	5.73	5.99	5.48	5.43	7.87	9.23	10.72	13.76	11.72	9.60	10.31	12.15
All Districts	6.28	6.59	6.34	6.24	8.42	9.93	11.33	14.36	12.94	11.83	12.30	13.62
GAUHATI												
Leaf:												
Assam	5.84	5.93	5.77	5.97	8.75	9.84	11.00	14.03	12.48	12.87	13.35	13.62
Cachar	5.27	5.49	5.03	5.15	7.82	9.02	10.51	13.38	11.65	11.67	11.60	12.24
Dooars	5.49	5.76	5.38	5.53	7.99	9.53	10.67	13.50	11.91	12.43	12.97	12.02
All Districts	5.79	5.86	5.67	5.82	8.58	9.65	10.86	13.84	12.22	12.601	13.04	13.29
Dust:												
Assam	5.64	5.99	5.67	5.86	8.06	9.45	10.87	12.60	12.93	13.36	12.28	13.26
Cachar	4.99	5.36	5.11	5.15	7.36	8.67	10.45	12.45	11.64	11.22	11.50	11.69
Dooars	4.91	5.58	5.11	5.20	6.74	8.25	10.32	11.88	12.30	12.77	12.14	11.38
All Districts	5.57	5.92	5.63	5.79	7.96	9.31	10.79	12.55	12.70	13.131	12.20	13.09
SILIGURI												
Leaf							11.08	13.55	11.16	11.47	11.31	13.07
Dust							11.01	12.36	10.92	9.63	10.47	12.36
COCHIN												
Leaf	6.23	6.77	6.40	6.13	8.71	9.93	11.25	16.77	11.90	12.53	13.69	13.46
Dust	5.70	6.00	6.13	5.96	8.27	9.49	11.06	15.12	12.92	11.74	12.72	13.39
Excise Duty: Leaf, etc. ...	.50	.52	.48	.49	.49	.59	.59	.03	.68	.68	.70	.74
" " Dust... ...	.38	.39	.38	.38	.39	.47	.50	.54	.55	.56	.57	.60
COONOOR												
Leaf	Breakdown figures		5.03	4.42	7.42	7.99	9.95	12.67	10.08	9.83	10.04	10.57
Dust	not available.		5.36	4.81	7.60	8.39	10.26	12.81	11.17	10.06	10.63	11.47

Source: International Tea Committee.

TABLE 31

Annual average prices of tea sold at London and European Auctions.

London and Antwerp, in pence per kg. Calendar Years.

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
LONDON												
North India: Excise Zone	39.9	37.9	...	35.0	61.9	55.8	69.1	108.2	118.7	85.1	81.5	78.5
" "	42.8	39.6	39.6	42.8	58.6	60.8	77.8	160.9	116.0	98.4	96.9	100.4
" "	...	71.5	...	...	...	96.5	76.8	...	92.6†	90.9†	...	...
" "	47.6	42.7	43.6	46.0	60.7	63.9	86.3	163.8	125.9	108.6	106.4	105.2
Total N. India ...	46.7	42.1	42.9	45.7	60.5	63.6	84.9	163.3	124.4	107.4	105.1	104.6
South India: Excise Zone	37.5	39.1	36.5	36.7	52.7	58.0	81.5	125.6	93.6	80.4	74.1	88.2
" "	40.9	39.7	38.9	40.0	56.9	59.2	83.0	150.3	97.4	87.8	77.9	84.8
" "	45.4	44.8	45.6	44.3	55.1	55.9	75.4	150.4	130.3	98.3	89.4	90.5
Total S. India ...	40.4	39.9	37.9	38.0	55.3	58.0	81.8	139.6	96.8	86.1	77.1	86.8
Total All India ...	46.3	42.1	42.7	45.5	60.2	63.3	84.7	162.0	123.9	107.0	104.1	104.2
Bangladesh			34.2	34.4	47.6	55.2	61.9	156.3	90.0	85.6	78.7	81.3
Ceylon / Sri Lanka: High	48.1	46.4	46.3	46.8	61.1	63.7	89.7	159.1	117.2	107.3	94.7	96.9
Medium	45.4	43.9	44.5	44.2	59.4	62.2	85.0	155.4	108.6	99.9	87.3	90.5
Low	41.5	41.0	41.4	40.1	56.8	61.2	81.0	140.6	106.2	90.2	80.2	87.2
Total Sri Lanka	46.9	45.3	45.5	45.6	60.3	63.1	88.1	157.4	114.2	103.9	91.7	94.5
Africa–												
Burundi...					57.6	58.2	79.3	132.8	92.5	93.9	68.5	95.8
Cameroon	45.1	43.1	41.5	...	60.8	...	94.5	152.3	112.7	94.3	...	...
Kenya	48.6	47.3	43.6	44.5	64.7	65.8	89.3	169.7	124.0	114.4	111.3	107.4
Madagascar	...	...	...	...	...	...	...	...	...	...	101.5	103.7
Malawi	39.6	39.5	37.4	37.8	55.3	57.2	80.8	130.1	86.7	84.9	77.5	87.5
Mauritius	40.2	41.9	37.1	38.7	56.2	50.9	79.2	133.6	86.9	83.5	75.4	88.7
Mozambique	35.4	36.8	33.9	34.6	52.3	50.1	65.6	96.1	79.5	63.9	58.4	66.0
Reunion	35.7	41.9	..	...	...	...	...	...	...	...	...	...
Rwanda...	43.3	43.0	38.2	41.8	60.2	64.2	85.1	162.2	115.8	117.9	105.1	102.4
Tanzania	48.4	45.4	41.7	42.6	60.2	64.5	86.9	157.8	112.9	101.8	92.0	94.0
Uganda	46.8	43.6	41.0	42.0	60.9	61.6	86.6	169.4	...	...	...	...
Zaire	41.0	39.8	32.7	40.8	58.7	59.5	86.8	156.1	85.1	68.5	63.7	...
Zimbabwe	...	...	...	...	...	...	...	...	...	...	92.2	94.5
Total Africa ...	44.0	43.1	40.3	41.2	59.7	61.6	83.7	152.2	109.8	100.8	93.8	98.5
Malaya	37.9	38.1	38.1	40.9	...	...	...	...	...	...	...	...
Nepal	...	...	...	55.3	...	...	...	...	...	...	...	...
Viet-Nam	30.0	38.2	31.4	35.8	51.9	56.1	...	...	...	...	...	...
Papua, New Guinea ...	45.6	43.0	37.9	38.9	56.3	55.8	76.4	134.8	97.0	78.7	72.5	70.3
Argentina	36.8	34.5	...	...	48.7	...	...	156.8	76.1	52.0	...	...
Brazil	...	...	...	...	56.8	48.2	64.9	116.2	80.9	90.6	77.6	87.0
Ecuador	...	...	...	...	...	...	77.8	84.0	64.4	60.0	...	...
Total All Tea ...	45.7	43.3	42.2	43.4	59.9	62.4	84.1	156.3	113.7	102.1	96.1	99.3
ANTWERP *(a)*												
Indonesia	34.9	37.7	...	...	...	...	...	...	...	...	...	...

Source: International Tea Committee.

TABLE 32

Quantities of Tea Sold at Auctions in Producing Countries.

In metric tons. Calendar Years unless otherwise noted

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
CALCUTTA												
Leaf: Assam				83,210	71,858	81,580	97,519	76,178	81,774	70,353	72,612	93,825
Cachar				1,749	1,159	1,574	997	1,872	328	118	259	459
Darjeeling				9,488	9,034	7,786	10,336	8,806	8,235	8,246	7,182	9,045
Dooars				21,965	22,832	24,370	25,752	22,718	16,832	14,673	14,518	24,705
Terai				3,688	3,885	3,025	3,321	2,548	2,178	1,691	1,283	1,982
All Districts	99,387	108,529	117,582	121,414	110,458	120,181	139,248	113,167	110,236	95,680	96,614	131,050
Dust: Assam				40,150	29,194	34,761	32,449	29,720	27,115	23,900	27,908	20,737
Cachar				1,943	1,452	1,343	678	1,396	251	230	161	238
Darjeeling				540	449	389	520	444	452	483	360	351
Dooars				15,555	15,070	13,792	13,008	12,080	8,717	7,890	6,694	10,956
Terai				1,625	1,380	1,239	1,066	847	680	658	406	347
All Districts	54,721	45,056	52,051	60,120	47,901	51,933	48,151	44,871	37,488	33,283	35,695	32,853
GAUHATI												
Leaf: Assam				10,175	9,863	13,435	15,533	18,044	30,229	27,649	27,332	29,039
Cachar				1,371	1,573	3,548	3,695	6,896	6,086	5,315	4,931	6,371
Dooars				1,585	528	1,383	2,370	1,215	10,067	7,871	3,154	747
All Districts	4,548	11,934	10,103	13,246	12,104	18,614	22,270	26,716	48,056	42,1581	36,258	37,441
Dust: Assam				9,295	8,147	9,987	12,749	15,892	21,389	24,334	22,190	24,912
Cachar				631	660	1,379	1,581	2,712	2,262	2,071	1,581	1,769
Dooars				353	324	790	878	277	4,163	4,310	2,239	476
All Districts	4,550	10,064	8,763	10,298	9,220	12,221	15,417	19,076	28,347	31,1691	26,306	27,527
SILIGURI												
Leaf							1,706	8,466	6,602	4,973	9,165	36,292
Dust							982	7,162	5,473	4,478	7,583	19,191
COCHIN												
Leaf	38,390	38,017	35,192	35,083	34,549	34,681	34,318	46,234	38,180	45,797	41,889	28,319
Dust	24,289	21,714	23,388	26,360	24,080	26,548	27,024	26,147	30,216	33,037	28,045	26,218
COONOOR												
Leaf			3,368	3,454	3,031	5,168	4,702	7,919	5,537	5,215	5,204	5,151
Dust			6,284	7,912	9,000	10,645	11,039	12,950	15,937	13,091	10,402	11,573
CHITTAGONG												
For Consumption in Pakistan	29,982	1,854										
Leaf			15,694	16,158	21,839	19,176	21,900	25,132	24,965	23,231	26,022	26,902
Dust			4,266	4,630	5,616	5,213	7,287	7,576	8,636	8,369	10,258	8,738
COLOMBO												
High-grown	55,858	60,878	61,729	66,797	63,550	69,971	66,124	66,223	60,098	66,652	63,765	72,155
Medium-grown	56,205	62,269	62,712	61,278	61,212	60,274	61,143	60,430	55,580	56,720	52,707	52,293
Low-grown	56,087	53,882	52,874	57,961	53,015	56,768	54,451	60,025	65,160	64,726	61,824	69,001
Total Tea	168,150	177,028	177,315	186,036	177,777	193,012	181,718	186,679	180,779	188,107	178,296	193,450
JAKARTA						18,422	22,771	30,290	33,713	36,324	38,148	37,074
MOMBASA												
Burundi										581	199	305
Kenya	6,630	5,789	9,104	9,101	10,730	14,533	17,499	27,110	30,855	41,896	32,264	37,110
Mauritius	—	—	—	—	—	—	—	—	148	30	220	383
Rwanda	12	—	—	—	14	—	442	1,969	1,650	1,094	1,709	1,641
Tanzania	1,255	986	697	836	1,448	1,410	1,544	398	—	—	—	—
Uganda	4,255	4,224	3,757	4,366	8,041	9,095	5,242	10,090	4,939	968	97	19
Zaire	—	—	39	15	54	84	—	53	—	—	105	676
Other	—	3	—	—	—	—	—	—	—	29	29	122
Total Tea	12,153	11,002	13,598	14,308	20,290	25,122	24,727	39,619	37,591	44,599	34,616	40,341
LIMBE				2,723	3,331	4,091	5,633	5,754	6,939	6,882	6,993	8,345

Source: International Tea Committee.

319. Finally, the Board is used as a channel for the tea industry's dialogue with the Government. Most of the issues under discussion with the Government, such as cases for local price increase or advice on Kenya's stand in international negotiations on tea, are deliberated at and channelled through the Tea Board.

320. However, the Board is purely regulatory and in the context of the tea industry in Kenya, sinecure. Apart from its Board Members, it has no operational function; its staff only comprises the Secretary, his Secretary and a few clerks. It has little impact therefore in the operation of the tea industry and, though a statutory body, hardly any influence on the transnational tea corporation activities.

2. Kenya Tea Growers Association

321. It has its origins in the now-defunct Associated Tea Growers of East Africa that evolved into a Kenyan version as the East African States became more autonomous at the time of Independence. The Association, though bearing a Kenyan name, in effect groups the various firms and companies traditionally classified as the plantation or estate sector of the Kenyan tea industry.

322. The Kenya Tea Growers Association is dominated by transnational tea corporations, and is the forum for design of official strategies for that sector as regards their preliminary dealings with the Government on general issues of tea production. Because of the inter-relationship in some of these issues, this body is sometimes in liaison with KTDA where there is congruence of interest in approaches to the Government.

3. East African Tea Trade Association

323. This forum deals with trade in the Kenyan tea industry. It is an Association comprised of both producers, buyers and brokers from Kenya, Uganda Tanzania, Rwanda, Burundi or any other tea producing country of East Africa.

324. The rules and regulations of its constitution in effect provide the background for tea trade in East Africa. Some of the Associations objects are to promote tea trade in Africa, to ensure orderly tea marketing and its centralization, to establish facilities for the conduct of sales of tea by auction or otherwise, to promote close relations within the tea industry and to facilitate the settlement of disputes within the trade. Constituents are either Buying Members, Producer Members, Broker Members or Associate Members.

325. Throughout its history, the Association has been the forum where transnational tea corporations as the controllers of the tea trade have rallied as a united front. Accordingly, its rules are highly restrictive of participation in the trade by non-members and give it a broad mandate to reject potential constituents.

326. The Association, a very powerful group, managed in the past to bar tea trading to any non-member firm. More recently, however, as local African firms

have shown interest in joining, the rules have been amended with the effect that entry and stay in the trade now favours new-comers, especially African starters.

327. A good example of the Association's power and readiness to bar entry by local business interests was exhibited in the application for admission by Combrok Ltd. The company was only accepted after a heated struggle within the Association between KTDA in defence as proposed for admission and the rest of the trade on the opposing end. The dispute went so far as requiring the casting of a vote.

4. International Tea Promotion Association (ITPA)

328. This Association comprises representatives of the Governments of all tea producer countries of the world. It was formed a few years ago with Kenya as the first Chairman and India holding the Executive Director post.

329. ITPA was set up with the aim of expanding demand for tea through generic promotion. A primary motive behind this is the world-wide decline in real tea prices. Promotion was viewed as having a potentially favourable effect for producers by changing consumer habits and attitudes towards more tea consumption at higher returns.

330. Within its short history, ITPA has undertaken considerable work in assessing the potential of various markets around the world and in defining objective criteria for the selection of target areas in which to launch campaigns to pursuade consumers to drink more tea.[17]

331. The financial burden of any long-term global programme of generic promotion, however, is beyond the resources of the members who are suing for importing countries to share the burden. This constraint, coupled with divergent views of members on significant aspects of promotion direction and their internal schism, has already caused serious harm to the young Association.

332. The latest, 7th Session of the Governing Board held at Association Head quarters at Rotterdam in the Netherlands from to October 1982 was dominated by uncertainty over the future of the Association as a result of Sri-Lanka's withdrawal. Another session of the Governing Board is scheduled for April 1983; it will shed more light on the fate of the Association.

5. UNCTAD

333. Negotiations for a revival of another, International Commodity Agreement on tea have continued, first under FAO and now UNCTAD auspices.

334. In these negotiations, the fortunes or misfortunes of the developing producer countries and of the buyer countries and their transnational tea corporations can be determined through consensus.

335. Tea production has been rising. Real tea prices have fallen by at least 25 per cent over the past ten years. Negotiations have centered on the need for

and nature of a commodity agreement on tea that would cater to both seller and buyer interests and focus on regulation of the market by means of supply management and demand expansion; its principal objective would be to bring about a long-term equilibrium between supply and demand at price levels acceptable to both sides. The negotiations have sought to resolve the divergence of interests between buyers and sellers as well as among sellers themselves on the broad objectives and mechanics of the proposed agreement.

335. Towards this end, a series of meetings in which Kenya has been represented have taken place. In one important meeting held by UNCTAD in Blantyre, Malawi in November 1979, tea experts agreed that supplies should be regulated on international markets by holding buffer stocks and imposing export quotas. The proposed quota, however, was rather small at 10 000- 15 000 tons. Uncharacteristic of the previous and subsequent meetings, there was apparent consensus between African and Asian producers.

336. Another meeting, was attended by the ten leading exporters who, together, account for 95 per cent of global exports was held in Indonesia in May 1980. The delegations in attendance agreed to a net world export quota of 740 000 tons in 1981 to prevent what was termed as further serious erosion of profitability in the industry and continuing decline in the purchasing power of tea export earnings. The quota's objective was to keep prices at an average weighted composite level of 105 pence per kg. f.o.b. through 1985. In contrast, average prices in 1979 were 94 pence per kg. The hope was that such a level could be maintained while the export quota was raised by between 12 000 and 21 000 tons a year after 1981, bringing it close to 917 000 tons by 1985. Despite agreement that market forces alone could not provide a remunerative price level for exports, there was divergence of view on the problematic question of how the global quota should be allocated.

337. A further, but wholly unproductive meeting of producers was held in Salisbury, Zimbabwe in December 1980. Two other meetings were held in 1982, an informal one between India and Sri-Lanka and Kenya, in Colombo on 26 April 1982, and another, the third preparatory for exporters and importers, in Geneva, Switzerland, from 10 to 14 May 1982. In the informal meeting, India and Sri-Lanka held that the allocation for Kenya should be consistent with the current share of Kenya's export market. Kenya disagreed, arguing in favour of higher quotas to reflect the higher yields expected from its young teas.

338. At the preparatory meeting, there was broad concensus on the general framework of the proposed International Tea Agreement. However, the consumers objected to the inclusion of buffer stock arrangement. The United States in particular was outright opposed to an International Commodity Agreement on tea. The main areas of disagreement between consumers and producers were establishment of export standards, restraint on export growth and sharing of the global export quota. 12/

340. The meeting of the Committee of experts from the tea exporting countries held on 15 October 1982, on minimum tea standards failed to reach an agreement.

All the Committee's resolutions were inconclusive: Most of the tea producing countries, including Kenya, expressed the need for further research on the proposed minimum export standards before they could confidently agree to the parameters of the proposed standard.13/

341. Another meeting held in Geneva in 1983 has produced no results, and the hope for the proposed agreement seems to be receeding.

342. The basic problem in the negotiations is the divergence of interests among producer-exporters. On the other hand, the traditional producer-exporters, mainly India and Sri-Lanka, with a static export situation, stand to gain through constriction of out-put at the international level. They are therefore pressing for comparatively low quotas. Young producer-exporters with substantial new plantings such as Kenya, view a restrictive quota allocation as a negation of national development and therefore find it unacceptable.

FOOTNOTES

CHAPTER VI

1. Figures obtained through interviews with sources in the Kenyan Tea Trade.

2. Information obtained through interviews with sources close to the U.K. Tea Trade.

3. Information obtain through interviews with sources in the Kenyan Tea.

4. Information from the Kenyan Tea Trade.

5. Corporate Records.

6. Confidential viability Report, unpublished.

7. Information obtained through interviews with sources close to the U.K. Tea Trade.

8. Corporate Records.

9. A recollection of the dispute by C.M. Irungu who conducted the KTDA case in defence of Coubrok's Application for Admission against the representatives of the transnational tea corporations in the Association

10. The International Tea Journal, Number 3, June, 1982

11. See the record of the deliberations of the Association's Governing Board Session held at New Delhi in February, 1982.

12. See the minutes of the Tea Board of Kenya held on 2 July 1982 on the Report of the Proceedings of the Third Preparatory Meeting on the Proposed International Tea Agreement.

13. See the Minutes of the Board of the Kenya Tea Development Authority held on 23 November 1982 on the Report of the Meeting of the Committee of experts on Minimum Tea Standards.

CHAPTER VII

LEGAL & ADMINISTRATIVE FRAMEWORK

A. Introduction

343. The pattern of government regulation of the economy is just as important as the commodity and its market conditions, and therefore a significant factor in shaping bargaining with transnational corporations, with a resultant strong bearing on the extent of the distribution of gains. Control or regulation is constituted by law and is applied which, in turn, affect the nature of TNC activities.

344. This chapter examines the law, the Government policy emanating from it and its application. It should be noted that the law and government policy on foreign investments is of general application to transnational corporations operating in Kenya and will therefore be similar in fundamental aspects for all TNCs including the tea corporations.

B. Legal framework

1. Protection of foreign investments

345. The relevant Article of the Kenya Constitution is incorporated as a Schedule to the Foreign Investment Protection Act, No 3 of 1964 of the Laws of Kenya and provides conditions under which property or interest or right therein may be compulsorily taken. The Article in effect provides that no property of any description shall be compulsorily taken possession of, and no interest or right over property of any description shall be compulsorily acquired, except:

(1) Where possession or acquisition is in the public interest;

(2) Where the necessity of possession or acquisition affords reasonable justification for causing hardships that may result to any person having an interest in or right over the property;

(3) Where provision is made by law for prompt payment of full compensation.

346. A person or corporation who has an interest or right in or over property which is compulsorily acquired has a right of direct access to the High Court that has jurisdiction to determine the interest or right of the complainant, the legality of possession or acquisition of the property, interest or right and the amount of compensation to which the complainant is entitled. The court is also empowered to determine issues relating to the prompt payment of compensation.

347. The Kenyan Contract Act (Cap. 25) and the Judicature Act (Cap.?) of the Laws of Kenya apply the common law and therefore the principles of the English Law of Contract, the doctrines of Equity and the Statutes of General Application to the Republic of Kenya. The Protection of Foreign Investments Act of Kenya does not expressly provide for the law which should govern an investment contract or agreement.

348. The Act provides for fora which shall have jurisdiction in cases of compulsory acquisition of property or any interest therein. In the absence of a clear choice of law, the choice of a local tribunal coupled with the fact that one of the parties is a sovereign would lead to a conclusive presumption that it is the domestic law of the sovereign which would govern the contract or agreement.

349. Under the application and operation of the British law, freedom of contract inter parties is therefore enshrined in the Kenyan law and available for exercise by the parties to contract such as a foreign investment agreement.

2. Recognition and enforcement of foreign judgements

350. The Foreign Judgements Enforcement Act (Cap. 43) of the Laws of Kenya governs the recognition and enforcement of foreign judgements. A judgement under the Act is basically defined as any judgement or order given by a court in any civil proceedings whereby any sum of money is made payable and includes an award in proceedings on an arbitration if the ward has, in pursuance of the law in force in the place where it was made, become enforceable in the same manner as a judgement of a court in that place.

351. Apart from providing for enforcement of a judgement of a superior court in the United Kingdom, the Act also gives the Minister concerned power to declare by notice in the Kenya Gazette that similar provisions should apply to certain countries outside the United Kingdom where the Minister is satisfied that reciprocal provisions had been made. If satisfied that reciprocal benefits are conferred by a foreign country, the Minister may extend the application of the Act to that country.

352. The Act provides that the court may not entertain any proceedings for the recovery of a sum payable under a foreign judgement unless the judgement has been registered. It is clear from the above that there is no automatic recognition and enforcement of foreign judgements.

3. Commercial arbitration

353. Kenya has also enacted legislation governing commercial arbitration and indeed any written agreement to submit difference to arbitration, as expressed in the Arbitration Act (Cap 49) of the Laws of Kenya, 1968. The Act incorporates the General Protocol on Arbitration Clauses 1923, and the Geneva Convention of 1927 as schedules.

354. In accordance with the provisions of the Protocol on Arbitration Clauses 1923, the arbitral procedure including the constitution of the tribunal is governed "by the will of the parties and by the law of the country in whose territory the arbitration takes place." Pursuant to the provisions of the Protocol, provision is also made for judicial review and intervention under the ambit of the Arbitration Act.

355. The Convention of 1927 deals with enforcement of foreign arbitration awards. Any arbitral award made in pursuance of an agreement, whether relating to existing

or future differences (Submission to Arbitration) covered by the 1923 Protocol is to be recognized as binding and enforceable by a High Contracting Party to which the Convention applies. The award is enforceable in accordance with the rules of procedure of the territory where the award is relied upon provided, however, that the award has been made in the territory of one of the High Contracting Parties.

356. A foreign award may be enforced in Kenya and may be relied upon by any of the parties by way of defence, set-off, or otherwise in any legal proceedings in Kenya. It may be enforced by leave of the High Court in the same manner as a judgement or order to the same effect or by action.

4. IBRD Convention on the Settlement of Investment Disputes

357. This convention, which came into force on 14 October 1966 and to which Kenya is a party, has been hailed as "an important development in the settlement of disputes." It provides for the setting up of a centre to provide facilities for conciliation and arbitration of investment disputes between contracting states. The centre does not, therefore, directly engage in conciliation and arbitration but merely provides facilities for settlement.

358. The jurisdiction of the court is founded on the consent of the parties to a dispute and is thus optional in essence. Once consent is given, however, it cannot be unilaterally withdrawn. Adjudication is limited to a legal dispute arising directly out of investment.

5. Bilateral agreements

359. Such countries as the United States and under provisions of mutual security statutes have signed agreements with many African countries, among them Kenya, guaranteeing private investment. The guarantee is intended to cover non-commercial risks such as inconvertibility, expropriation and losses due to war or revolution. The guarantee extends to stock purchases, royalties or loans and a fee of a quantified percentage is normally charged on the amount of each coverage in force in any given contract year.

6. Exchange control

360. The Exchange Control Laws and regulations govern the repatriation of profits or amortized capital or the proceeds of sale of an enterprise by foreign investors. They also govern the allowance of the foreign exchange necessary for the purchase of industrial goods, equipment, raw materials; and repatriation of earnings by expatriates working for transnational corporations in Kenya.

361. The balance of payments situation and therefore the stability of the economy depend on these laws as far as the Government is concerned. Most of the legal provisions covering these areas are in the Exchange Control Act (Cap. 113) of the Laws of Kenya or the rules made thereunder.

362. The certificate of approved enterprise granted under the above cited Investments Protection Act serves a threefold purpose. It guarantees the investor to whom it is granted the right to repartriate his capital and profits as well as ensuring that fair compensation is paid to him in case of nationalization.

7. Other statutes

363. Taxation law is also operative: it abolished Graduated Personal Taxes in 1973 and replaced them with sales tax on nearly all manufactured commodities for reimbursement upon effective exporting, in addition to the normal corporation tax through which the Government levies revnue on the earnings of transnational corporations. There are also other laws such as the Price Control Act under which the local price of goods including tea are regulated and controlled; statutory controls over labour as regards employment, wages trade unions; and compulsory arbitration through the Industrial Court.

Two strong features are present in these laws:-

i) The absolute security provided for the transnational corporations as foreign investments.

ii) The strong hand vis-a-vis local labour given to the transnational corporations as major employers of local Kenyans. 1/

C. Administrative framework

364. Four areas of control emerge here as significant. They include the process of government approval for new transnational corporations entries under the Foreign Investments Protection Act; the policies in implementation of the Africanization of manpower objectives; government ownership of shares in transnational corporations; and the process by which the Government controls transnational corporation access to local capital

365. In effect, these four areas provide coverage of the bargaining situation as well as the actual policing of the activities of transnational corporation activities in the Kenyan economy.

1. Approval of transnational corporations business ventures

366. Faced with large-scale capital disinvestment, at independence, the government's main pre-occupation was to halt capital out-flow and restore confidence among foreign investors.

367. It was in this context that the Foreign Investments Protection Act of 1964 was passed. The Act provides a system by which overseas investors can apply for a 'certificate of Approved Enterprise' to be granted by the Minister for Finance to a foreign-owned enterprises which 'would further the economic development of' or would be of benefit to Kenya.'

368. Holders of such certificates are guaranteed the right to repatriate profits, loan interest and 'the approved proportion of the net proceeds of sale of all or any part of the approved enterprise'. They are also assured, as already seen,

that no approved enterprise would be compulsorily acquired, except under the provisions of the Kenya Law.

369. The Act has led to a comprehensive screening of virtually all transnational corporation investment coming into the country. At first, this process took an ad hoc form, with individual Ministers using the Act as one incentive by which TNCs were persuaded to enter Kenya.

370. In 1968, an inter-departmental New Projects Committee was established to review applications more vigorously. This body, with representatives, if appropriate, from the Treasury, Commerce & Industry, I.C.D.C., D.F.C.K. as well as Agriculture, Forestry or Natural Resources Ministries now reviews all applications; the Committee, however, remains advisory and Ministers have occasionally over-ruled or ignored it.

371. Preliminary consideration is usually followed by reference to the foreign firm for more details or for suggested improvements on particular points. The final decision is based on an analysis of a project's expected foreign exchange cash flow, its employment effects, training benefits and locational priorities.

372. For larger projects, the government may take the initiative by preparing reports on particular production opportunities and arranging competitive bids form the Transnational Corporations. In such cases, consideration takes much longer, there is more overt bargaining with firms and decisions are based on more detailed cost-benefit analysis of proposals - shadow pricing may be used to estimate social costs and benefits more accurately.

373. In these and other cases, the Projects Committee operates as the bargaining forum on all aspects of a corporation's agreement to invest. As such, it negotiates protection (either via tariffs or import bans), duty exemptions, levels of government shareholding, Africanization, plans, levels of management, technical fees, and more.

2. Africanization

374. Once certificates of Approved Enterprise are granted, the new Projects Committee ceases to have any control over the transnational corporation.

375. As non-citizen companies relying heavily on expatriate management, transnational corporations are particularly subject to the Government's programme of Africanization of commerce through the Investment or Trading Companies and under the Trade Licensing Act of 1967 (which specified areas and goods to be handled exclusively by citizen traders). Changes in Transport Licensing Regulations limiting licences to citizens have affected transnational corporations engaged in transport, including the oil companies. The Immigration Act of 1967 and the Introduction of the Kenyanization of Personnel Bureau (now defunct), which regulated non-citizen employment by means of work-permits, were important for all transnational corporations in Kenya. The permit system has gradually been extended to additional classes of business and work-permits have been allocated for short periods, depending on the training provided to a Kenyan citizen replacement for the posts involved.

3. Government participation

376. A third set of constraints on the transnational corporation would conceivably come with the growing government equity participation in larger subsidiaries. In the immediate post-independence period, state ownership was largely organized through the ICDC, a parastatal investment company in which British, German and Dutch state development agencies held the bulk of the shares.

377. Increasingly however, the parastatal ICDC undertook investments in the transnational corporations.

378. The Government then began to take direct shares in certain large foreign-controlled firms, such as Brooke Bond. It purchased 51 per cent of the East African power & Lighting Company's shares and took 60 per cent of National & Grindlays in what became the Kenya Commercial Bank and the following year; the oil refinery became 50 per cent state owned, with other significant shares in cement, and tobacco. These shareholdings involve wide Government representation on subsidiary Boards across the Kenyan economy.

4. Control of access to capital

379. In 1971 as foreign exchange reserves dipped dramatically from a base of £84 million to over £21 million, the Government adopted a fourth set of constraints explicitly aimed at non-resident corporations.

380. The immediate reaction was a growing number of public share issued by trans-national corporations and the repartiation of proceeds from these issues which increased pressure on Kenya's foreign exchange position.

381. The Government therefore established a right of review over all such capital issues under the Exchange Control Regulations. This, in turn, became a procedure to regulate all access by the transnational corporations to local capital. Under Exchange Control Notices 19 and 36 of 1971, non-resident controlled firms are required to obtain permission for any local loan or over-draft in excess of 20 per cent of the non-resident investment in the business of the borrower (including parent loan, share-capital and subsidiary-to-parent debts for goods and machinery), for any public offer of shares, for any purchaes of shares in resident companies, for any foreign investment brought into new or existing enterprises and for any capitalization of reserves.

382. Resident-controlled firms with foreign shareholders are limited to 40 per cent of their total investment in over-drafts without special permission.

383. In all such cases, the Capital Issues Committee, with representatives from the Central Bank and the Ministries of Commerce, Industry, Finance and Planning assess all applications. This same body has been given responsibility for reviewing management, technical and service fee payments from the subsidiaries to transnational corporation headquarters.

384. Because of its pre-occupation with defending Kenyan Foreign Exchange Reserves, the Capital Issues Committee has become an active agent in government relations with

the transnational corporations, even to the point of exceeding its formal jurisdiction at times in intervening in TNC affairs.

385. The principal criterion it uses is the foreign exchange benefit, though in its analysis of share-issues and over-draft requests, it is also concerned with contribution towards economic development before approving applications. Such development, however, is conceptualized in rather broad and uncritical terms, so that virtually any significant expansion planned by a subsidiary will win the Committee's favour. Nor does the Committee do its own detailed cost-benefit calculations on projects; it often relies on the companies' own statistical analysis.

386. Despite these short-comings, the Committee does bargain vigorously with the corporations: only those corporations seeking over £50,000 in over-draft reach the Committee. This alone involves negotiations with some 100 large firms a year.

387. Approval of requests is by no means automatic and is sometimes tied to a condition that there be no dividend repatriation until the transnational corporation subsidiary is down to its 20 per cent level. Share issue requests have also been used to pressure transnational corporations to initiate new expansions, though few companies make such requests in a year.

388. There are then a range of government measures that can act as constraints on transnational corporations; the actual impact of such instruments, however, is more ambiguous than their description might suggest. Only in particular policy areas related to Africanization do formal government constraints seem to have a significant influence over TNCs.

389. In fact, the survey evidence on these constraints suggests that they effectively operate to establish and defend transnational corporation privileges in the Kenya political economy and to see that a small number of Africans share the benefits of these privileges.

D. Impact of state regulation and control

1. Approval of business venture

390. Most subsidiaries in Kenya receive certificates of Approved Enterprise without negotiation with the Projects Committee. The latter is primarily a channel by which transnational corporation subsidiaries obtain economic privileges, especially freedom from external and sometimes internal competition and from duties on their imported machinery and imports.

391. Issues raised by government negotiators are limited and relate mostly to foreign exchange or cash-flow; negotiations attempt to persuade subsidiaries to bring in more capital than planned and to reinvest more of their expected profits by lowering dividend targets; equally important is the pressure exerted on behalf of African managers and businessmen who wish to share some of the privileges granted to the TNCs.

392. Transnational corporations are therefore more active than the government in seeking concessions through negotiation. Large TNC seem to carry greater negotiation strength because they offer large-scale capital inflows; in fact, these have been the principle justification for government support of TNCs.

393. Government negotiators, on the other hand, may have stronger leverage when bargaining with a group of TNCs competing over one project.

394. However, the results of this balanced bargaining situation will depend on government priorities for the economy, the degree of independence of government negotiators and the political bargaining strength of the transnational corporations.

2. Africanization

395. Africanization of business had little harmful effect or impact on turnover, nor has it acted at the expense of the transnational corporations; in fact, the relationship is actually complementary.

396. With regard to Africanization of personnel, several transnational corporations cut expatriates from 11.3 per cent to 2.3 per cent of total personnel in 1971/72 and trained Africans overseas for their Kenyan or African enterprises.

397. Africanization of personnel, however, doe not constitute a serious constraint on the transnational corporations, nor does it significantly affect their economic orientation or performance. Rather, it results in a share of the foreign companies' financial affluence going to a growing African managerial class- a process that is reflected in institutional flexibility on the part of TNCs and one which serves TNC interest in the emerging class symbiosis within the Kenyan politcal economy.

3. Government shareholdings

398. With regard to government shareholding, some transnational corporations seek government finance during entry negotiations.

399. One reason for this is financial: Government participation lessens the capital commitment of the transnational corporations. This is particularly the case with British TNCs. The other reason is strategic. Government participation is seen as defusing potential future nationalistic reaction, especially in sensitive sectors of the economy. It is also favoured as a means of institutionalizing special access to the Government to ease problems such as obtenation of work-permits. Finally it guarantees that the transnational corporation will receive the concessions promised on entry, since the government will have a significant financial interest in the subsidiarie's success.

400. State shareholdings do in fact facilitate the granting of economic privileges: this is why state 'nationalizations' in banking, cement manufacturing, and bus transportation were initiated by the transnational corporations themselves.

401. Underlying this flexibility over equity partnership is the ability of the TNCs to repatriate surplus through channels other than dividends, such as fee payments, sales or inputs and machinery.

4. Control of access to capital

402. Though rather uncritical in its assessment criteria and less than rigorous in cost benefit analyses, the Capital Issues Committee does apply constraints on transnational corporations. It readily rejects TNC requests for over-drafts and handles their attempts to become public. It adopts a broad review role from the perspective of conserving foreign exchange and promoting development. It has also been used to break-up some cartel arrangements against national interests. Its dealings, however, are limited to large subsidiaries, since only they will want to be public or seek extra overdraft facilities of over £ 50,000.-

403. Despite this, the committee's constraints do not represent strong restraints or control of the transnational corporations, because access to local capital, over-drafts or share issues is not a critical element for the bulk of TNCs.

404. If necessary, Kenyan operations can easily be financed by loans from parent companies which often take the form of delayed subsidiary payments for parent input sales. Such financing from abroad is what the Committee tries to encourage, but in the process, it looses its own leverage over the transnational corporations. The Committee does retain authority over fee payments, which could represent another source of leverage; it does not have any direct control over dividend payments, nor any elaborate machinery of its own for investigating transfer pricing.

405. The Committee has also had difficulty translating what leverage it does have into bargaining power. It has tended to operate as a vetting institution, checking particular abuses rather than negotiating with transnational corporations, offering access to capital in return for particular economic moves.

406. Very rarely during negotiations prior to approvals does the Committee push the transnational corporations towards decentralized location creation of employment or wide linkage effects, all of which might result in a more equitable spread of TNC profits. Instead, the Committee has emphasized growth per se and larger shares for some few African insiders.

407. On the balance, the Capital Issues Committee does represent a constraint on the transnational corporation but in practice not a powerful one because its leverage is limited and has not been used within a coherent economic strategy for equitable development.

E. Transnational corporation - government relations

1. Inter-action

408. On the whole, most transnational corporations share friendly and co-operative relationships with the Government, especially those with powerful parent companies.

409. TNCs that rely heavily on expatriate man-power and are unable to adjust to the post-indepenedence political economy are the only ones which have difficulties.

2. Rationale

410. In part, the situation reflects the strategic position the transnational corporation occupies in the Kenyan economy. The Government depends on TNCs for economic initiatives, a fact that limits its freedom to restrain them. In the absence of an alternative development strategy, constraint on transnational corporation enterpreneurship could lead to reduced employment, an investment freeze or lowered export production.

411. A second limitation lies in skilled manpower constraint. A Government requires specialized manpower to gather information and analyse it in detail if it is to assess transnational corporation proposals and bargain effectively.

412. The Government has too few specialists to undertake this task across the many sectors of TNC involvement in Kenya and abroad. On their side, the transnational corporations do have skilled specialists who have easy access to information around the world and can benefit from the experience of parent operations in many other jurisdictions.

413. Third, transnational corporations closely control certain technologies without which Kenya cannot develop particular industries.

414. As has been noted, this is on the basis of an inherently unequal situation, since government cannot have complete information to bargain for such know-how "until they have bought it."2/

415. Similarly, the transnational corporations control export market channels for certain Kenyan products; these might be closed to Kenya if vigorous action were taken against the TNCs.

416. Fourth, transnational corporations have institutional allies in their bargaining with the Government. The Kenya National Chamber of Commerce, the Federation of Kenya Employers and the Kenya Association of Manufacturers are all organizations with friendly and close links with the Government, and most transnational corporations are members of these bodies and call on them for assistance in significant disputes. Top personnel in TNCs often lead these bodies. The visible role of the corporations in these organizations guarantees their willingness to provide such help.

417. The Trans-national Corporations are also able to use the influence of their British club, the powerful East Africa and Mauritius Association.

418. High Commissions and Embassies generally represent another ally for Transnational Corporations in Kenya. Though usually informal with official representations limited to later stages of serious disputes, intervention on behalf of respective national subsidiaries often takes place at high levels. The involvement in a dispute of the Governments of such large aid donors as the U.K., the U.S.A and West Germany seems to lead to settlements that favour these nations' transnational corporations.

419. Despite these weaknesses it is however clear that Kenya has imposed considerable regulations on the activities of transnational corporations, though it could still submit them to greater constraints, thus broadening the benefits of industrialization in the process: in the areas where the government or its parastatals or agents have bargained successfully, substantial and beneficial changes have occurred.3/

F. Economic situation

1. Good economic record

420. The economic situation in the country, a generator of government policies that can neither weaken or strengthen its negotiating position with the transnational corporations also determines the outcome of distribution of contested gains.

421. The years 1964-1973 are popularly known as the period of the "Kenyan miracle', when annual average real growth was registered at the rate of 7 per cent. Success was achieved.

2. Economic changes

422. The present economic position of Kenya is bleak, characterized by shortages of foreign exchange and Government budget deficits. The situation is attributable to various factors, chief amongst which are staggering oil prices increases since 1974, a decline, starting in that same year, in world prices for Kenya's two major export commodities — tea and coffee — (in spite of unprecendented booms in their prices in 1977-1979) and escalating prices for essential manufactured, capital and consumer goods the country imports from the industrialized nations.

423. The combined result has been a decline in Kenya's terms of trade and consequent crisis in its balance of payments. Compounding this have been increases in military expenditures, a previously contained budget item in the Kenyan economy, the continued cost of extended social services and heavy capital investments in large projects. The effect has been a sharp jump in the country's external debt ratio from 5 to 11 per cent in 1981.

424. Kenya's Fourth National Development Plan (1979-1980 to 1982-1983) envisaged an annual growth rate of 6.3 per cent, but the figure has been progressively adjusted, first to 5.4 then 2 percent: a realistic rate would probably be closer to zero. 5,6/

3. Economic policies

425. The Government has essentially been forced to opt for crisis management, primarily through borrowing but also through imposition of fiscal and other measures.

426. A first loan was awarded in the amount of US$ 200 million in 1979 in the eurodollar market, and managed by the National Westminister Bank based in Britain. Internally the government floated Treasury Bills and, more drastically, issued a directive through the Central Bank of Kenya requiring all commercial banks to increase their liquidity rates from 15 to 20 percent, of which 50 per cent should be tied up in Treasury Bills. Financial institutions were similarly ordered to raise their liquidity ration from 17 to 25 per cent, the entirety of which would be used to purchase Treasury bills. 7/

427. The Government resorted to IMF stand-by arrangements on a number of occasions since 1970; in 1993, it formed a special task force to request assistance in meeting budget deficits from 15 major donor countries, the IMF, the World Bank and the European Economic Community. An immediate outcome of Ksh. 260 million balance of payment support was received from Britain. Meanwhile Kenya had joined the Third World Group of 35, the developing nations caucus in the IMF pressing for distribution of a target SDR 12,000 million.

428. The credits and loans secured by the Government, however, are tied to conditions. The IMF in particular has imposed medium and short term policies. The former are expected to strengthen the balance of payments and establish a high growth rate for out-put and employment. They address re-structuring of the economy with emphasis on agriculture and re-orientation of the manufacturing sector towards export. The short-term measures intend to contain inflation and the external deficit. 2/

429. In application of the policies, Kenya has devalued its currency three times in the past two years by 5, 15 and again 15 per cent. To counteract resulting escalations in the price of consumer products, the government imposed in February 1992 price control measures on certain consumer goods. It also harmonized salary scales in the public sector between civil service and parastatal employees and announced a formula for allocatin foreign exchange on a priority basis for agriculture, inputs, raw materials, medicines and spare parts.

430. The Central Bank has lifted the ceiling on remittance of dividends by foreign companies with instructions to clear the backlog within a reasonable time scale. To this extent, full payments of dividends for 1990 have been authorized by the Central Bank and payments for loans, interest, royalities, management fees, film rentals etc. amounting to Kshs. 141 million due to various transnational corporations and previously pending at the Central Bank have been cleared. Another sum of Kshs. 175 million out of a total of a sum amounting to Kshs. 350 million representing repayments due for 1991 will be approved according to the Central Bank's promise within the early part of this year. The remaining half will have to remain pending until such a time as the foreign exchange position improves. The Exports Compensation Scheme, previously abolished under the Finance Bill, has been reintroduced. The Government has to find funds in the sum of Kshs. 250 million to meet dues under the introduction of the scheme.

431. The Government has decided to adopt a policy of capital disinventure, under which it is going to pull out its equity participation in ailing or failing ventures.

432. Needless to say, amidst this economic and resulting political 2/ consternation, the Government cannot be expected to have the necessary wherewithal in negotiating with the transnational corporations, tea ones included over such vital subject as equitable distribution of economic gains.

FOOTNOTES

CHAPTER VII

1. For a fuller treatment of the subject, see the relevant statutes, and for fuller legal analysis, See Anita C. Eze - The Legal Status of Foreign Investments in the East African Market or C. A. Ombasa on Law and Investment

2. C. Cooper, Science, Technology and Production in Under-Developed Countries: an Introduction, Journal of Development Studies, 1972, P. 11

3. For a deeper analysis of the Kenya Government relations with the transnational corporations, see Readings on the Multinational Corporation in Kenya, edited by Raphael Kaplinsky.

4. In mind here are the multibillion shilling projects, such as the Volasses Complex in Kisumu, the Yen-Ren Fertiliser Project in Mombasa, the Halal Meat Project in Isiolo and other doubtful agricultural projects as the Bura and Pekera Irrigation Schemes.

5. See the Republic of Kenya, Sessional Paper No. 4 of 1970 on Economic Prospects and Policies.

6. The Minister for Finance Kenya in February 1973 publicly warned Kenyans that 1974 and indeed the next 2 years are going to be most difficult years they have so far experienced.

7. The Directives were issued on the 2nd of February 1973, and are expected to cause crisis and opposition in the Kenya Financial World.

8. The Standard Newspaper Issue of January 27th, 1973.

9. The economic crisis precipitated a volatile social and political climate in the country that culminated in an unsuccessful coup attempt in August 1970.

CHAPTER VIII

FINDINGS AND RECOMMENDATIONS

A. Findings

433. The study has documented efforts by the Kenyan government to gain control of its country's tea industry. At this stage, success has been achieved primarily at the production, processing and packaging levels. A commendable feature, furthermore, is that benefits have begun to accrue to Kenya's small holder farmers.

434. Transnational tea corporations in Kenya continue to operate the estate sector of the industry. They have lost their traditional dominance in acreage under tea cultivation as well as in processing, to the Kenya Tea Development Authority (KTDA). They shall hold, however, control of the international distribution and marketing of tea. Because of this, economic gains derived from the export of tea are not equitably distributed, nor are they applied to further Kenya's economic development.

435. Despite continued TNC dominance, much has been achieved in the tea industry. Employment, remuneration and salaries have accrued to nationals, some of whom have taken up serious executive positions in transnational tea corporations at maximum level of economic and social benefits.

436. The Government and the public sector have participated in TNC profits from tea through equity and dividend payments on equity as well as by ways of Government revenue from corporation tax, import duty, sales tax and other levies.

437. There have been interest accruals to the economy on local capital borrowed by the transnational corporations; domestic purchases of goods and services through locally owned enterprises constitute another real gain.

438. Despite this progress much remains to be done to effect even fairer distribution of gains. The recommendations that follow concentrate on this aspect of the tea industry in Kenya.

B. Recommendations

439. At the production level, and despite the success of KTDA operations, transnational corporations in Kenya, and Brooke Bond in particular, continue to show strength in Kenya's tea production. This has been achieved primarily through introduction of new technology for tea agriculture and manufacture, as a direct result of research and innovation, areas to which Brooke Bond applies a high level of resources.

440. The Tea Research Institute, jointly owned and funded by three East African Sister States, broke up after the collapse of the East African Community. It took years to re-establish another tea research facility, the national Tea Research Foundation of Kenya, to handle the entire national tea research needs. No contribution to this area, however, has been made by the Government either directly or through its agent tea corporations.

441. A basic recommendation, therefore, is that national and preferably regional resources be pooled and strong research facilities established in the area of technological fields pertaining to tea even for such a basic stage in the tea industry as production. In the long term, this could help to cut-down the ever-rising costs of production and limit undue reliance on foreign companies by the national tea corporations in the area of innovative production techniques.

442. As has been noted, it is a strategy of the transnational tea corporations to diversify to other crops or areas of industry, to break their dependence on a single line. KTDA on the other hand, as the operative national tea corporation, is confined to tea development alone.

443. An essential recommendation, therefore, is for the national corporation to enter fields of the industry different from or incidental to tea, in the form of new ventures where accruals from tea through re-investment can be maximized and risks inherent to reliance on a single crop minimized.

444. Allied to this is the disturbing fact that the world market for Kenya tea, including that of KTDA, is almost in the absolute control of the transnational corporations. TNCs are in firm control from shipping, insurance, warehousing, brokerage, buying, reselling, agency, packing and distribution, right from the gardent to the consumer. Through all these stages, the value of the increases; the proceeds, however, accrue to the transnational corporations in control of these stages rather than to the primary producer. The control of marketing and the forward linkages giving rise to it are associated with levels of production and processing. Transnational corporations, which are integrated backwards in tea plantations but forwards in processing and marketing, firmly control and dominate the chain and the gains ensuing therefrom. Through such complex systems which interlink with other industries even outside tea, the government cannot issue protection against pursuit of practices and strategies such as transfer pricing.

445. Another strong recommendation, therefore, is that the Kenya Government has its own tea trading corporation or corporations. These ought to go into tea broking, warehousing, packing and distribution at the international level. Ideally, KTDA is best suited to take up this function by reason of its statutory mandate, its organizational infrastructure and its personnel base.

446. A step in this direction would not represent a novelty. Other third world producer countries have made this move. A guiding example is India, whose Tea Trading Corporation of India (TTCI) is a fully owned undertaking of the Government in the export of packaged and blended teas.

447. Indeed, unless KTDA or another national corporation engages and succeds in controlling a subtantial share in the trade, KTDA will never diversify from its current role. It will thus remain a primary prodcuer, at high costs, of fine quality teas that afford transnational corporations sizeable profits which they need not share.

448. As for the divolution of Ketepa from KTDA, it appears obvious that a national tea corporation of great marketing potential lost an opportunity to gain much needed experience in packing and distribution, experience required by any organization for entry into tea marketing and trading in international markets. Ketepa as an autonomous body, is bound to be too small and weak to venture into the vast and difficult area of world tea trade. It has accordingly remained confined to the home market ever since divolution. The company is already exhibiting uneasy sensitivity to local competition.

449. The significant aspect of the policy of divolution was that it weakened a national quasi-national tea corporation intended to protect national interests. A lesson here is that in the operation of vital areas of the tea industry, there is a great need for consistency and perpetuity in official policy.

450. Allied to consistency is the need for official policy to be presented in a comprehensive form. One of Ketepa's problems in terms of local competition is that whereas the price of its own tea is controlled, those of brands imported into Kenya are not. Imports, which were worth Kshs. 5,739,500, 119, 213, 431 and 105, 525, 218 in 1977, 1979 and 1981 respectively, command much higher prices than Ketepa teas. There is an obvious need to correct this anomaly in the local tea price structure. Indeed, there is no reason for Kenya, a super-power in production of tea of leading quality, to import the commodity at inflated consumer prices.

451. As noted, Kenyan law on foreign investments is highly protectionst. Yet transnational corporations in the Kenyan tea industry and elsewhere in the economy are strong enough to hold their own without these apologetically protectionist rules. The time has probably come for the Kenyan National Assembly to consider enacting laws to protect the national economy from the effects of foreign investments, especially those of the transnational corporations. In particular, employment and labour laws need review for further protection of the welfare and well-being of workers. Kenya has no equivalent of the modern Indian Employment Law on tea: instead, most of the employment statutes now in operation are direct quotes from colonial statutes. Unless proper enactments are introduced in this area, TNCs will continue to control economic gains meant for equitable distribution at the national level.

452. As for the policing of the economic activities of the transnational corporations, Kenya's civil service, as noted, is ill-suited for this essentially-economic function. The Government lacks the necessary organizational set-up and personnel properly to carry the task. One way of improving state performace in the tea industry is to remove this function from the civil service and vest it in an organization that is carrying out similar and parallel operations to those of the transnational corporations and is therefore equipped to understand and identify the crucial areas where decisive regulation is necessary. The practical way to do would be to abolsih of the Tea Board and merge its functions with those of KTDA, thus bringing the transnational corporations and the Tea Associations under the statutory dictates of the Authority, acting for and on behalf of the Government.

453. On the economic front, the study has described the deterioration in the economic performance of Kenya and its consequential drain on Government power to control economic forces. On the side of the tea industry, the substantial drop in real tea prices and the erosion of earnings through imported inflation in the inter-action of the economy with external economies and transnational corporations aggravates this unfavourable situation.

454. Corrective measures including loans from the international lending agencies like the IMF have generated policies that appear to dissrup the very economies that are being assisted. The implication here is that in order to be truly corrective

on a permanent basis, changes must be deeply fundamental. There may be no option short of a complete re-orientation of the economic philosophy on which Kenya's economic development has been based for the last 20 years.

455. The requirement here is for a new economic order, both nationally and internationally; this represents the only meaningful safeguard against loss of economic gains from the Third World to the developed countries. The UNCTAD negotiations on a new commodity agreement on tea should therefore be held against the background of this global necessity.

456. Seventy-five per cent of Kenya covers desert and/or marginal land. The country has no mineral wealth, no advanced technological and no commerce base. It is heavily dependent on coffee and tea, crops grown on the little fertile area of land still left for crop development, for its world trade.

457. The issue for Kenya in UNCTAD negotiations is whether or not its only option for development -- tea planting -- can be sacrificed through quota systems in return for higher prices; as has been noted, a good portion of the latter is not distributed equitably to nationals, nor is it determined solely by the economic law of demand and supply.

458. Due to the beneficial multiplier effects inherent in the tea development programme for the country as a whole, subscription by Kenya to tea quotas under the proposed International Tea Agreement would on the balance be disadvantageous. This view is backed by Kenya's experience with the quota system recently imposed under the International Commodity Agreement on Coffee.